FINANCIAL HISTORY

The magazine of the Museum of American Finance

US Presidents and the Federal Reserve

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The 90th Anniversary of the Crash of 1929 and the Rise of Fake Money

ISSUE 131 | FALL 2019

MUSEUM OF AMERICAN FINANCE

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FINANCIAL HISTORY

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ON THE COVER

Top to bottom: President George W. Bush announces the nomination of Ben Bernanke as the new Federal Reserve Chairman; President Richard Nixon confers with his monetary advisors at the White House; President Barack Obama announces Janet Yellen as his choice to chair the Federal Reserve. See related article, page 18.

Museum Announces Three Honorees for 2020 Gala

Message to Members

David J. Cowen | President and CEO

This week, we wrapped up our Fall Evening Lecture Series with a film screening of "In Money We Trust?" followed by a conversation with co-authors Steve Forbes and Elizabeth Ames. This was the fourth event in the series since September, along with "Corporate Sustainability: Is It Sustainable?" (*see article, page 5*), James Grant on *Bagehot: The Life and Times of the Greatest Victorian* and "A Conversation with Stacey Cunningham: The First Female President of the NYSE." All four programs were co-presented with the Fordham Gabelli Center for Global Security Analysis.

Planning for the 2020 Evening Lecture Series is underway, with two events confirmed so far. *Wall Street Journal* reporter Gregory Zuckerman will speak on "The Unlikely Story of How Jim Simmons Solved the Market" on March 4, and financial journalist Felix Salmon will interview Sir Mervyn King in a fireside chat on his forthcoming book, *Radical Uncertainty: Decision-Making Beyond the Numbers,* on March 16. A panel on "Balancing Risk & Reward on Wall Street" is also in the works for early April.

We also had a full house for our most recent lunchtime program on the 90th anniversary of the Great Crash of '29. Former *New York Times* reporter Ralph Blumenthal spoke on "Crash! The Stock Market Collapse of 1929 and the Rise of Fake Money" on October 29, which was exactly 90 years to the day after Black Tuesday. See page 11 for Mr. Blumenthal's article on this topic.

Our most popular education program also continued this fall, with the Museum Finance Academy running from September 25 through November 14. Two sessions of our signature after school financial literacy certificate course were offered on Wednesday and Thursday afternoons for the fall semester. This program also included field trips to the New York Stock Exchange and the Federal Reserve Bank of New York. Scholarship winners for this semester will be announced in the next edition of *Financial History* magazine. We are most appreciative of Con Edison's continued sponsorship of this program.

As the fall draws to a close, I am pleased to announce we have secured three honorees for our 2020 Gala, which will be held on Monday, February 24, 2020, at Cipriani Wall Street. PayPal President and CEO Dan Schulman will receive the Schwab Award for Financial Innovation, Morgan Stanley Chairman and CEO James Gorman will receive the Whitehead Award for Distinguished Public Service and Financial Leadership, and Andover National Corporation Chairman and CEO Peter Cohen will be the first recipient of our Lifetime Achievement Award. Additional details on the Gala, including the table reservation form and sponsorship information, can be found at www.moaf.org/2020Gala.

Also coming up in 2020, we are working on an exhibit on NYC water to open in early February at the New York City Municipal Archives near City Hall. The exhibit will feature the Manhattan Company, founded by Aaron Burr and the predecessor of Chase Manhattan Bank. Stay tuned for this exhibit and many other interesting developments planned for next year. $

The Museum's 2020 Gala honorees will be (left to right): Dan Schulman, James P. Gorman and Peter A. Cohen.

Museum Hosts Evening Program: "Corporate Sustainability: Is it Sustainable?"

By Mindy Ross,
Director of External Relations

On September 19, the Museum hosted an evening program featuring some of the leaders in sustainability from the financial and policy perspectives. Co-sponsored by BNP Paribas and Moody's, the program was attended by a diverse and engaged group of close to 200 Museum members, invited guests and members of the press. In his opening remarks, Museum President David Cowen noted, "Sustainability is no longer a fringe issue; investors now expect to incorporate environmental, social and governance data—or ESG—into their decision-making. It has moved beyond what impacts financial performance to what constitutes responsible corporate behavior." Mr. Cowen was followed by Jean-Yves Fillion, CEO of BNP Paribas USA & Chairman of CIB Americas, and Moody's President & CEO, Ray McDaniel, both widely recognized for their leadership in the sustainability field.

The program began with a dynamic fireside chat between Martin Whittaker, founding CEO of JUST Capital, in conversation with program moderator Emily Chasan, Sustainable Finance Editor at Bloomberg News. Mr. Whittaker emphasized the underlying premise of JUST Capital, that business and capitalism must be a positive force for change. He stressed that if people have the "right" information, they will buy from, invest in, work for and support companies that align with their values. Ms. Chasan transitioned to the panel discussion, furthering the thematic question of: "What is capitalism, and how does sustainability fit in?"

The highly-engaging panelists included Lynn Good, Chairman, President & CEO of Duke Energy; Dr. Barbara Porco, Director, Center for Professional Practices & Chair of Fordham's SASB Collaboration Governance Board; and Satya Tripathi, UN Assistant Secretary-General and Head of the New York Office at UN Environment. Discussion highlights included how to accurately measure and account for sustainability, how to incentivize sustainable behavior in corporations and what constitutes "material" commitments and actions. There was a lively debate on the ideal balance between shareholder and stakeholder priorities. Mr. Tripathi warned the audience that a heightened focus on private profits can risk creating public losses.

Audience questions related to energy efficiency standards, reducing carbon footprints and how to reward corporations taking leadership roles in sustainability. A cocktail reception followed including all of the program participants. Social media coverage, including a photo library, is available across the Museum's social media channels (@FinanceMuseum) with the hashtag #ESGpanel. The program was held in partnership with Fordham University Gabelli Center for Global Security Analysis. $

Photos: Elsa Ruiz

Clockwise from top left: Opening Remarks by Jean-Yves Fillion, CEO, BNP Paribas USA & Chairman of CIB Americas; Introduction to Program by Raymond McDaniel, President & CEO, Moody's; Martin Whittaker, CEO, JUST Capital in Fireside Chat with Emily Chasan, Sustainable Finance Editor, Bloomberg News; Panel Discussion moderated by Emily Chasan with (from left): Lynn Good, President & CEO, Duke Energy; Dr. Barbara Porco, Director, Center for Professional Practices & Chair, Fordham SASB Collaboration Governance Board; and Satya S. Tripathi, UN Assistant Secretary-General and Head of NY Office of UN Environment.

MoAF Loans Library Collection to the American Institute for Economic Research

By Sarah Poole, Collections Manager

THIS AUGUST, the Museum's library collection was placed on loan to the American Institute for Economic Research (AIER). The books were sent to AIER's E.C. Harwood Library in Great Barrington, Massachusetts, where they will be fully cataloged and made available to scholars for research. This partnership will benefit both institutions, as the Museum's library will be better utilized and will help AIER to expand the resources available to its audiences. The loan is also an opportunity for the Museum to expand access to its collections while continuing to seek a new physical location.

The Museum has been collecting books throughout its history, and previously the library was primarily used for research by Museum staff. The library collection covers subjects including biographies; histories of banks, businesses and corporations; investing; general American and world history; economic policy; international finance and more. Due to the size of the library (roughly estimated at 10,000 volumes), it had only been partially cataloged and was, therefore, difficult to search and use. The library was unfortunately inaccessible to most researchers and the general public. After the flooding incident at 48 Wall Street, Museum staff and volunteers packed all of the books for storage, where they remained until the start of this loan.

AIER was founded in 1933 as the first independent research organization dedicated to studying "the wide range of economic, social and monetary developments that had contributed to the catastrophic economic contraction" of the Great Depression. Today, the Institute operates with the mission to "educate Americans on the value of personal freedom, free enterprise, property rights, limited government and sound money." AIER publishes extensive editorials and research, hosts educational programming and supports scholars and students with fellowships and internships. The organization is also home to the Bastiat Society, "a global network of business professionals committed to advancing free trade, individual freedom and responsible governance."

The mission and activities of AIER are complementary to the Museum's own mission "to improve understanding of the influence of financial institutions and capital markets on the US and global economies, and on individuals' lives." Therefore, the Institute is a good fit for the Museum's library collection. The initial loan period will last for five years and will help foster a continuing partnership between the two organizations. $

Markus Hartel

The Museum recently loaned its collection of library books to the American Institute for Economic Research (AIER) to provide better access for scholars.

The Museum's staff and volunteers packed its roughly 10,000 volume book collection for its loan to AIER.

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Frank Norris's *The Pit* (Part II): A Career Cut Short

By Brian Grinder and Dan Cooper

Frank Norris punched his meal ticket with the success of *The Pit*, the second book in his wheat trilogy. In the last *Educators' Perspective* column, we explored the difficulties Norris encountered as he struggled to understand what was taking place in Chicago's commodities markets. Fortunately, he was able translate his knowledge into a highly readable novel that captivated the imagination of readers. He painted an accurate, realistic and dramatic picture of commodities trading in the early 20th century[1] as his protagonist, Curtis Jadwin, attempts and ultimately fails to corner the wheat market. Norris explains the end of the corner in naturalistic terms writing, "…demand and supply, these were the two great laws the Wheat obeyed. Almost blasphemous in his effrontery, [Jadwin] had laid his puny human grasp upon Creation and the very earth herself, the great mother, feeling the touch of the cobweb that the human insect had spun, had stirred at last in her sleep and sent her omnipotence moving through the grooves of the world, to find and crush the disturber of her appointed courses."

The 32-year-old Norris had accomplished his goal of becoming a full-time writer. In 1899, he described his vision of success to his friend Bruce Porter shortly before leaving New York on a trip to San Francisco. According to Porter, Norris exclaimed, "'Bruce, see that?'—as he waved a little swagger stick between his hands 'I'm going to walk down Sutter St., swinging that!—And they'll say '*That's Frank Norris!*' I never liked him better than at that moment," wrote Porter, "…going home to his boyish reward, for the struggle and the travail—but with his goal attained."

With the publication of *The Octopus*, the first book in the wheat trilogy, and a $3,000 advance from *The Saturday Evening Post* for its serialization of *The Pit*, fame and fortune awaited Norris. After he finished writing *The Pit*, Norris returned to San Francisco in 1902 with his wife Jeannette and their daughter to enjoy the fruits of his labor. The planned round-the-world trip to research the third wheat novel, *The Wolf,* was pared down to an excursion to Australia with a stop in Samoa.

The Norrises had fallen in love with the redwood forests while visiting Robert Louis Stevenson's widow, Fanny, at her country estate near Gilroy, California. They purchased a one-room log cabin on 10 acres next to Stevenson's property for $500 and then spent another $550 on improvements. Norris wrote to his friend F. Nelson Doubleday, "I can shoot a deer from my front windows… There's a trout stream just around the corner. We have the Stevensons for near neighbors. This beats a New York apartment." Life was good.

But then tragedy struck. Jeannette fell ill with appendicitis in mid-September and underwent a successful appendectomy at Mount Zion Hospital. Her quick recovery allowed Norris to purchase tickets for their trip to Australia in mid-October. Norris, however, began to suffer from acute indigestion at about this time but chose to do nothing about it. He finally agreed to a physical examination with Dr. Julius Rosenstirn, the same doctor who successfully treated his wife. Rosenstirn's diagnosis was appendicitis, and he recommended immediate surgery. Norris, unconvinced that his illness warranted such a radical step, delayed treatment. He awoke two days later in excruciating pain and was rushed to the hospital. Unfortunately, Norris's appendix had burst and he was besieged with gangrene. There was nothing to do but irrigate the abdominal cavity and hope for the best. Norris died three days later on October 25, 1902. He was 32 years old.

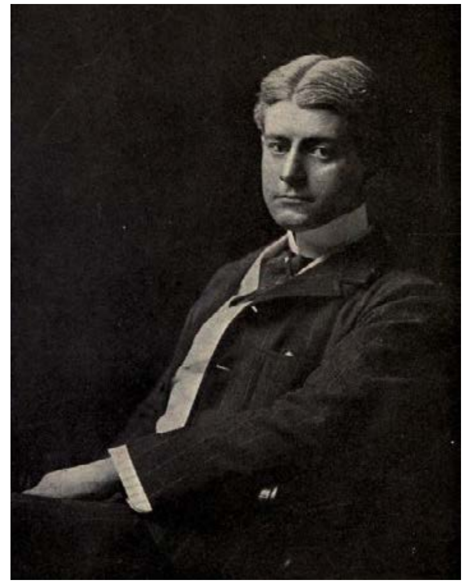
At the time of Norris's death, the sixth installment of *The Pit* had just been published in *The Saturday Evening Post.* Installments ran until January 1903. The unabridged book became available that same month and went on to become one of the best-selling books of the year.

The works of Norris have fallen out of favor today primarily because of his racist attitudes. Norris came from a snobbish

Left: Image from *The Pit,* as it appeared in the November 29, 1902 edition of the *Saturday Evening Post.*
Right: Announcement of Frank Norris's illness on page 8 of the *San Francisco Chronicle,* October 23, 1902.

To Frank Norris
By Emery Pottle

Simple and kind he lived, rich in the gracious dignity
Of labor and of love.
And knowing him our House of Life
More perfect grew, and added to its symmetry
A turret strong and bold —
A battlement within whose high serenity we dwelt
Content, as friends must ever be.
. . . . . . So in his death
This splendid masonry of love's upbuilding
Has crumbled grievously to earth;
Our House of Life, more incomplete than in the days before his coming.
Stands strangely desolate;
Only a bird, full-throated with the melody of hope.
Sings in the empty courtyard.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Portrait of Frank Norris, by Arnold Genthe.

line of WASPs who believed in the racial superiority of Anglo-Saxons; inferior races threatened to corrupt this pure race. His writings clearly reflected the racism that was prevalent in his day. According to literary critic Donald Pizer, "Frank Norris's racism, which includes one of the most vicious anti-Semitic portrayals in any major work of American literature, has long been an embarrassment to admirers of the vigor and intensity of his best fiction and has also contributed to the decline of his reputation during the past several generations."

Norris's 1899 novel, *McTeague,* contains a character by the name of Zerkow. Pizer contends that Norris's depiction of Zerkow is largely "responsible for his reputation as an anti-Semite." Norris wrote, "Zerkow was a Polish Jew … It was impossible to look at Zerkow, and not know instantly that greed—inordinate, insatiable greed—was the dominate passion of the man. He was the Man with the Rake, groping hourly in the muck-heap of the city for gold, for gold, for gold." There is some evidence that Norris's racism began to moderate as he grew older.[2] However, his premature death cut short his rehabilitation. Pizer argues, "[Norris's] anti-Semitism…should be recognized for what it is, but its presence should not preclude a continuing interest in Norris as a richly talented late 19th century American writer."

Similarly, Norris's attitude towards women reflected the general attitude of his day. In *The Pit*, Norris describes Jadwin's wife's utter ignorance of her husband's futures trading. When he tries to explain why he bought three million bushels of wheat, she murmurs, "'Three—million—bushels! Why, what would you do with it? Where do you put it?'" Jadwin tries to explain that he had only bought the right to buy grain on a particular date, "…but" writes Norris, "she could not understand this very clearly. 'Never mind,' she told him, 'go on.'" In *The Pit*'s climax, Jadwin's sister-in-law comes to the exchange to watch the action. "She had seen all that had happened, but she had not understood. The whole morning had been a whirl and a blur… She was desperately anxious to find Landry [her fiancé], and to learn the truth of what had happened…" The pit was a man's world where this clueless woman, who couldn't possibly understand without a man to explain it to her, was bewildered by the frenzied activity.

In spite of Norris's failings, *The Pit* remains relative today because of the timelessness of its message. Investors still get caught up in the markets and attribute their successes to their superior skills, while dismissing their failures as bad luck. Norris's last novel also points to many issues that still matter today such as:

1. The social consequences of market actions—As Jadwin drives the price of wheat higher and higher, farmers—encouraged by the price increase—plant more wheat to take advantage of these higher prices. However, higher wheat prices lead to higher bread prices, which has an adverse effect on the poor and needy.

2. The effects of investment activity on family and friends—Jadwin neglects his wife as he becomes caught up in the wheat corner. After his first speculation in wheat, he lies to her and tells her he is out of the market, but his lie soon becomes apparent as his obsession with wheat grows. She, in turn, nearly falls into her own pit of adultery because of his neglect. Likewise, Jadwin's friend Charles Cressler, who doesn't realize that Jadwin is the "Unknown Bull" attempting to corner wheat, agrees to join Crookes's group in their attempt to break the wheat corner after they convince Cressler that it's a sure thing. As the price of wheat continues to rise, Cressler, realizing he is financially ruined, commits suicide. Jadwin, on hearing the reason behind Cressler's demise, laments, "'He was in the Crookes ring, and we never knew it—I've killed him, Sam. I might as well have held that pistol myself.' He stamped his foot, striking his fist across his forehead, "Great God—my best friend—Charlie—Charlie Cressler! Sam, I shall go mad if this—if this—"

3. The price of a sure thing—both Jadwin and Cressler are drawn into market

activity that they are initially reluctant to participate in on the promise of a sure thing. In both cases, the results are tragic as one man takes his own life and the other descends into madness.

4. Finally, Jadwin's seduction by the market and ultimate downfall reminds one of Warren Buffett's sage advice, "Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free either to ignore him, or take advantage of him, but it will be disastrous if you fall under his influence." $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

Notes

1. Consider, for instance, this description from chapter three of *The Pit*:

   Then suddenly, cutting squarely athwart the vague crescendo of the floor came the single incisive stroke of a great gong. Instantly a tumult was unchained. Arms were flung upward in strenuous gestures, and from above the crowding heads in the Wheat Pit a multitude of hands, eager, the fingers extended, leaped into the air. All articulate expression was lost in the single explosion of sound as the traders surged downwards to the centre of the Pit, grabbing each other, struggling towards each other, tramping, stamping, charging through with might and main. Promptly the hand on the great dial above the clock stirred and trembled, and as though driven by the tempest breath of the Pit moved upward through the degrees of its circle. It paused, wavered, stopped at length, and on the instant the hundreds of telegraph keys scattered throughout the building began clicking off the news to the whole country, from the Atlantic to the Pacific and from Mackinac to Mexico, that the Chicago market had made a slight advance and that May wheat, which had closed the day before at ninety-three and three-eighths, had opened that morning at ninety-four and a half.

2. Pizer notes that three of Norris's seven novels "…have significant and frequently noted anti-Semitic elements." While his last novel, *The Pit,* "…has a few neutral comments about Jews…"

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Freeport, Long Island Unemployment Relief Committee 25 cents scrip, undated.

FROM CRASH TO Scrip

The Stock Market Collapse of 1929 and the Rise of Fake Money

By Ralph Blumenthal

It was a Tuesday, exactly 90 years ago on October 29. Wall Street was thronged with pulsing crowds, giving off an ominous roar. The air was electric with panic. The market opened in free fall. Unprocessed sell orders overflowed the wastebaskets. Ashtrays were filled with half-smoked cigarettes. A record 16½ million shares were traded—almost four million more than the previous record, set the prior Thursday, a one-day loss of value, in today's dollars, of nearly $208 billion.

But as bad as the day was, the Crash was a process, a succession of wild swings that turned sharply negative on Thursday, October 24, 1929, when panicked sellers sold off nearly 13 million shares, sending the Dow (expanded the year before to an index of 30 leading stocks, from 12) diving 11%.

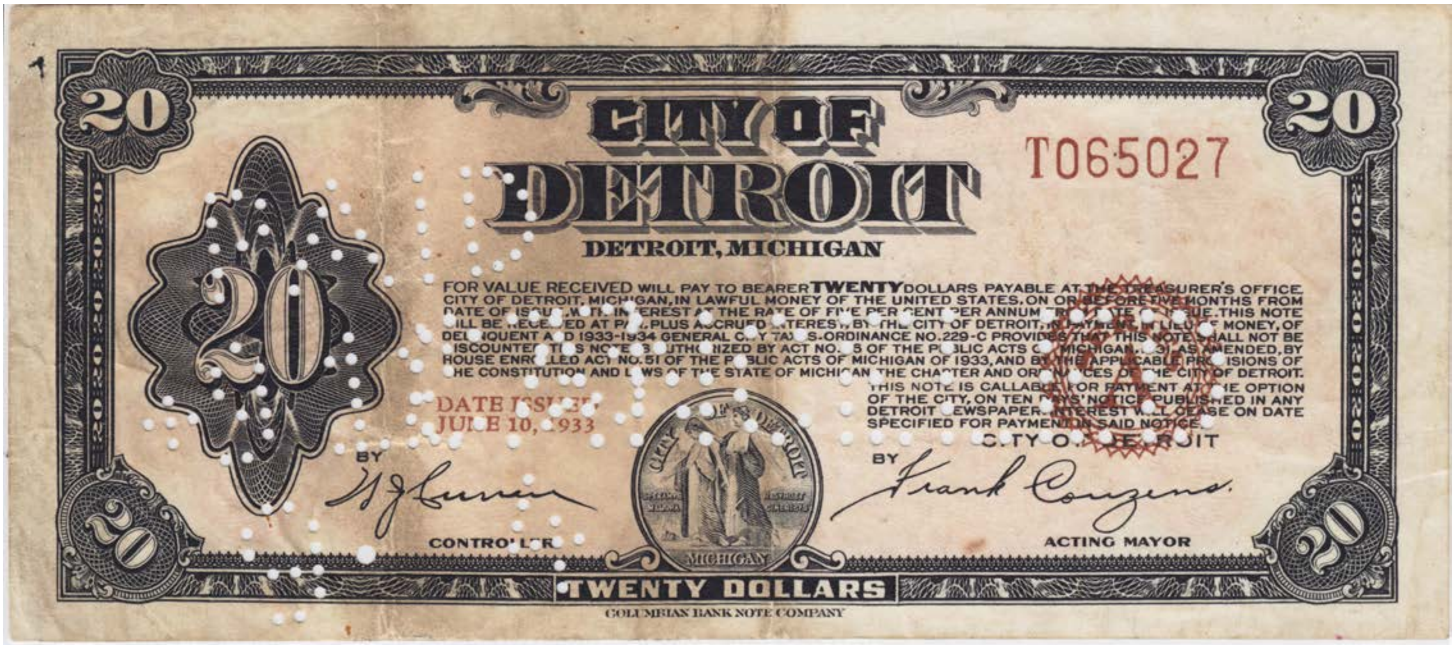
Stocks bounced back, but the following Monday they plunged again, and the next day, Black Tuesday, the bottom fell out. The four days of trading had cost investors $30 billion—in today's money nearly half a trillion dollars, and almost 10 times more than the entire 1929 federal budget. By November, the equivalent of $1.5 trillion had disappeared from the economy. The Dow had hit its record high of 381 in September 1929, up six-fold since 1921. By the summer of 1932, it was down to almost 41, having lost nearly 90% of its value. By 1933 nearly 13 million Americans, almost a quarter of the labor force, were jobless.

Wall Street had seen trouble before. Notably the Panic of 1907 and the 1920 bombing outside JP Morgan & Co. that killed 38 people and injured more than 300. But those disasters came and went. The Crash of '29 was different. It seemed prolonged and endless and all but took the country down with it.

In reality, there were many market downs and ups before and after the Crash. Even after the shock of Black Tuesday, the plunge of prices halted by spring 1930, and in April the Dow was 50% above its November low. In June 1930, President Herbert Hoover told a delegation of worried clergy, "You have come 60 days too late. The depression is over."

But of course it was only beginning. The roots of the 1929 disaster were deep. There had been a recession after World War I. Inventories built up during the war failed to find a market overseas, leading to a drop in exports. Farm prices were particularly hard hit. In ravaged Europe, conditions were worse. Defeated Germany suffered a catastrophic inflation that paved the way for Hitler. But in the United States, the long-term problems were hard to see behind what became known, after the death of Warren Harding in 1923, as "the Coolidge boom."

It was fueled by several things. The Federal Reserve System, created in 1913, began reducing its discount rate, from 7%



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City of Detroit $20 scrip, 1933.

in 1921 to 3% by 1924, making for easier credit. The automobile industry was surging. Between 1921 and 1923, factory sales of passenger cars more than doubled, to 3.6 million. The popular new mass entertainments of radio and movies—talkies!—were intoxicating. A sexual revolution was underway. And, speaking of intoxicating, notwithstanding Prohibition, liquid happiness flowed from every flapper's flask and speakeasy.

But problems lurked beneath the surface. From 1920 to 1921, farm prices dropped by half. Through the 1920s, a third of wage earners earned less than $2,000 a year—or $27,000 in today's money. That would qualify today for a family of three as poverty level. Today the national poverty rate is about 12%. So in the 1920s almost three times more Americans than today lived at or below the poverty line.

Even before the crash, two banks a day were failing. And, of course, there was as yet almost no safety net, no federal deposit insurance, Social Security, unemployment insurance, food stamps or Medicare.

But it was increasingly easy to invest. Brokers opened margin accounts with as little as 10% cash down—which was great as long as stocks kept rising. The Fed was no help; it actually made the borrowing easier. In August 1927 it *lowered* the discount rate from 4 to 3.5%, making credit even more available.

The renowned financial writer John Brooks said it was like "the police issuing guns to people on the street in a time of threatened riot." In 1927 alone, brokers' loans to customers rose from what would be, in today's dollars, $47 billion to $65 billion.

But not everywhere. While the eastern seaboard surfed the giddy wave, farmers and other suffering rural folk in the heartland looked on disapprovingly.

In 1928, the Fed finally hit the brakes, raising the discount rate to 5%, but it was too little, too late. With spectacular stock fortunes to be made, who cared about a slight rise in the cost of borrowing? Bankers loved it, borrowing from the Fed at 5% and loaning to speculators at 12%!

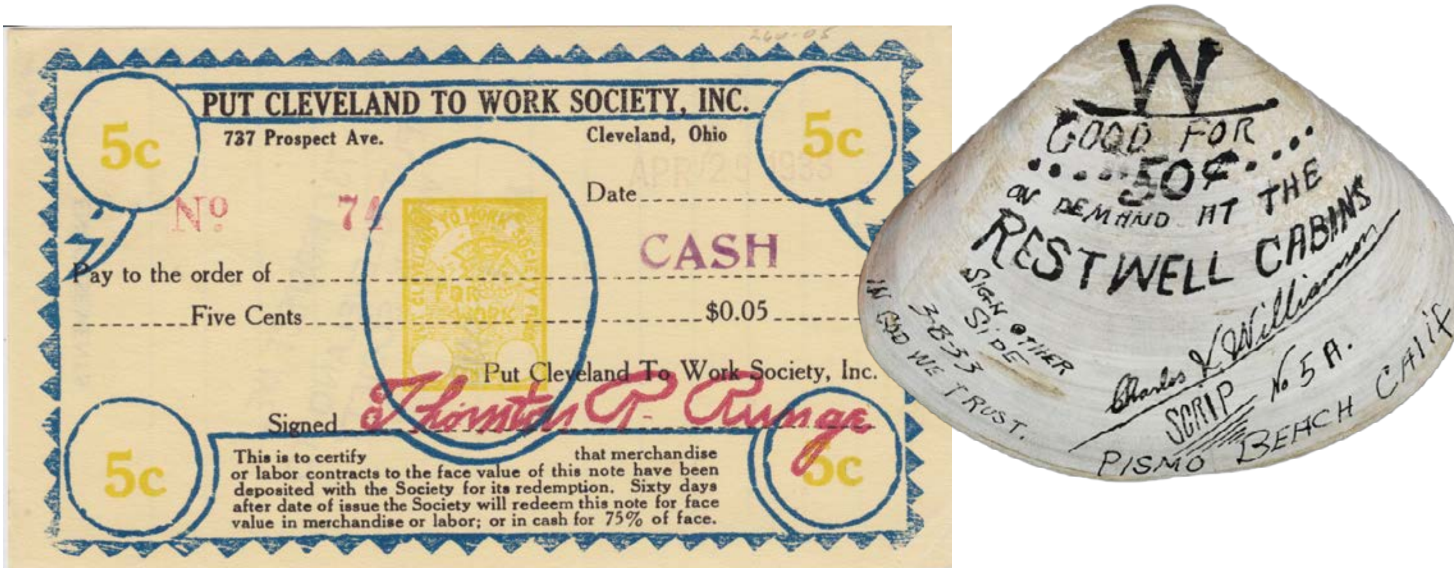
Brooks put it well: bankers made money by existing. The Fed pleaded with bankers not to lend funds for speculation "as far as possible." But any attempt to have the government step in to halt the madness was denounced as interference.

By the summer of 1929, Wall Street was mayhem. Vacations were on hold as bankers and customers stayed glued to the tickertape. Barbers and chauffeurs eavesdropped for stock tips and feverishly passed them on.

And then, in early September 1929, a broker by the name of Roger Babson in Wellesley, Massachusetts, spooked the market on a slow news day by mentioning in a luncheon talk what he had said many times before: "Sooner or later a crash is coming and it may be terrific." A few weeks later, a big British financier, Clarence Hatry, went bust. He later went to prison for fraud. And in October regulators blocked Boston Edison from splitting its stock four to one and put the utility under a cloud by announcing an investigation. None of these things by themselves seemed causative, but they cast a pall, shaking confidence in the market.

Monday, October 21, 1929 was a very bad down day, with the third greatest sales in history. The ticker lagged way behind, but stocks finally rallied, recovering some ground. Wednesday, October 23, was another bad day. On Thursday, October 24, it turned into a rout. Amid the rising alarm, Wall Street titans convened an emergency meeting. Morgan's senior partner, Thomas Lamont, conceded, "There has been a little distress selling on the Stock Exchange" which he attributed to "a technical condition of the market." President Hoover said famously, "The fundamental business of the country, that is production and distribution of commodities, is on a sound and prosperous basis."

Financier Richard Whitney made a dramatic gesture, appearing on the New York Stock Exchange floor with a high bid, over the asking price, for US Steel. Whitney was hailed as a savior, but he later went



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Left: Put Cleveland to Work Society, Inc. five cents scrip, 1933. Right: Pismo Beach, California, 50 cents clamshell scrip, 1933.

to Sing Sing for embezzlement, having defaulted on loans worth today nearly half a billion dollars.

It looked momentarily like the worst had passed. Some said stocks were now at bargain prices, presenting great buys. Not everyone was lulled. In the governor's mansion in Albany, Franklin D. Roosevelt denounced "the fever of speculation."

But by the following Tuesday, October 29, the selloff turned catastrophic. In ensuing days, John D. Rockefeller was prevailed upon to break his habitual silence to deliver a message of confidence. "Believing that fundamental conditions of the country are sound," he said, "my son and I have for some days been purchasing sound common stock. The comedian Eddie Cantor joked: "Sure, who else had any money left?"

There *would* be money after the country fell into the Great Depression. Only it wouldn't always be the kind Americans usually carried in their pockets. It would be a new kind of emergency currency—scrip, a provisional certificate of money, maybe derived from "subscription receipt" or an old French word for purse, *escrepe.*

In 1933, two New York newspapermen, Wayne Weishaar and Wayne Parrish, published a book called *Men Without Money: The Challenge of Barter and Scrip*. Now that the country had tumbled into the Depression, they wrote, "Economically and socially the barter movement in all of its phases is the outstanding 'story' in the United States today."

Barter, of course, was the ancient medium of commerce, where people trade what they have for what they need from someone else. A farmer trades bushels of corn to a shoemaker for a pair of shoes. But in a complex society, making such matches was cumbersome. What do you trade if you are say, a lion tamer, or a mirror-silverer?

So amid the shortage of legal tender, municipalities, organizations and businesses came up with their own unofficial medium of exchange—scrip. Some of it was paper, mimicking Treasury bills. Some was wood, literally wooden nickels. Pismo Beach, California, even issued clamshells as currency.

One little town in western Washington State between Seattle and Portland was particularly innovative. Tenino (Ten-NINE-Oh), named for an Indian tribe, suffered the closing of its only bank in 1931. With the next closest bank 15 miles away, depositors were encouraged to assign to the Chamber of Commerce 25% of their frozen bank assets in exchange for scrip certificates that local merchants agreed to accept for purchases, in amounts of 25 cents, 50 cents, $1, $5 and $10.

It was printed at the local newspaper, the Thurston County *Independent*, but along with paper, some of the 27,000 certificates were run off on thin strips of "slicewood"—two rectangles of spruce, 3¼ by 5½ inches, with paper in the middle. Word spread quickly with motorists detouring to Tenino to snap up the wooden money. In the end, of the $10,000 in scrip issued, only $40 was actually spent. Almost everyone wanted to hang on to it, which defeated the purpose but made Tenino world-famous in numismatics. To this day, wooden money is printed there for souvenirs.

According to one leading scholar, Loren Gatch of the Department of Political Science at the University of Central Oklahoma, by 1933 the amount of scrip in circulation, in today's valuation, was as much as $14 billion.

There was so-called reputational scrip issued by corporations and organizations (and backed by their solid reputations) to meet payrolls or purchase goods. There was bank and financial scrip exchanged as certificates between financial institutions or issued to depositors in lieu of cash. There was barter and self-help scrip, exchanged in cooperatives where farmers traded crops for harvest help and goods. There were tax-anticipation notes issued by cash-strapped municipalities to their employees with certificates. Some scrip required the application of stamps each time it was exchanged. When a sufficient number of stamps had been affixed, the currency lost its value, adding an incentive

Luther Halsey Gulick III papers, Baruch College Archives, Newman Library

For Depression-era consumers short of cash to pay fractional sales taxes, some states issued tokens like these bottle-cap cardboards in values as small as one-tenth of a cent.

for its prompt use. And some government entities issued square or round tokens of tin, aluminum or cardboard, in denominations as small as one mill, one-tenth of a cent, to pay sales tax on very small purchases. The Treasury later ruled these fractional coins illegal.

As for scrip, as long as issuers didn't claim to be minting legal tender, Washington was willing to look away. Given the dire circumstances, scrip was legal enough.

Some was exchanged at a utopian experiment called the Natural Development Association of Salt Lake City, an influential cooperative with its own newspaper and, according to authors Weishaar and Parish, more power than 50 trainloads of Communists. It was limited, however, to members who subscribed to Christianity.

Fascinatingly, one of the earliest advocates of self-liquidating scrip, and a harsh critic of the monetary system, was Charles A. Lindbergh Sr., father of the aviator, who served in Congress from Minnesota from 1907 to 1917 and opposed American involvement in World War I, an isolationist like his son.

I didn't know much about scrip until finding it in archives I was working on in Baruch College's Newman Library after leaving *The Times*. I had started a blog on an especially historic collection, the papers of the Institute of Public Administration and its longtime director, Luther Halsey Gulick III (1892–1993). With the generous help of Carnegie Corporation of New York, we got the donated collection of 700 overstuffed cartons out of storage and into Baruch for processing and digitization. One of the surprises we found was Gulick's collection of scrip.

Gulick, it turned out, was not just a leading theorist of government management, a counselor to Presidents Woodrow Wilson, Franklin D. Roosevelt and Harry Truman, and New York's first City Administrator, under Mayor Robert F. Wagner. He was also an obsessive collector of posters, charts, maps—and scrip.

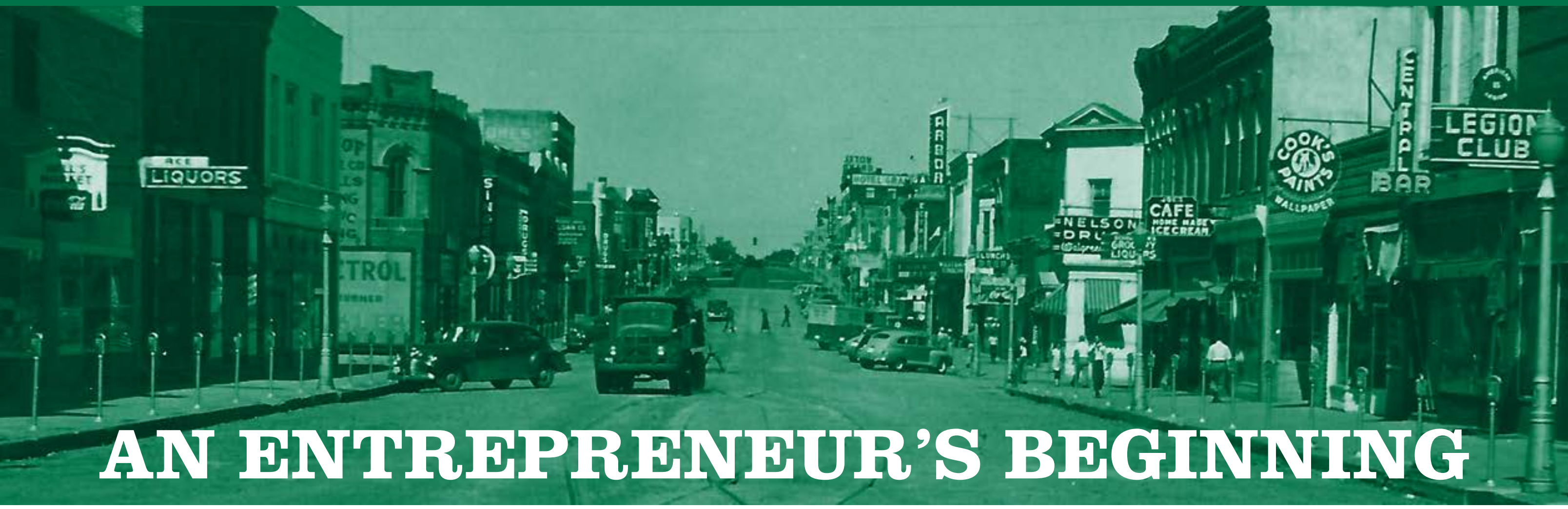
Starting in April 1934, Gulick, fascinated with all the workings of government, sent letters to municipal officials around the country asking for samples of their scrip, paying in some cases with postage stamps.

One case was particularly interesting. Upton Sinclair, the great muckraker and author of *The Jungle,* ran for governor of California in 1934 as a socialist, his slogan, "End Poverty in California." Red-baiting enemies circulated fake scrip called "SincLIAR dollars," which were "Good Only in California and Russia."

What lessons might be drawn from the Crash of 1929 with its scrip? One might be the protective role of government. We live in a cynical time of disdain for public service. But Gulick symbolized faith in enlightened leadership, and the knowledge required to turn theory into effective public policy. In a foreword to a lauded 1936 Rockefeller study of liquor reform, "After Repeal," Gulick wrote:

> The real work of government is not to be found behind the Greek columns of public buildings. It is rather on the land, among the people. It is the postman delivering mail, the policeman walking his beat, the teacher hearing Johnny read, the whitewing sweeping the street, the inspectors—dairy, food, health, tenement, factory, on the farm, in the laboratory, the slaughterhouse, the slum, the mill; it is the playground full of children; the library with its readers; the reservoirs of pure water flowing to the cities; it is street lights at night; it is thousands and thousands of miles of pavements and sidewalks; it is the nurse beside the free bed; the doctor administering serum; and the food, raiment and shelter given those who have nothing; it is the standard of weight and measure and value in every hamlet. All this is government and not what men call 'government' in great buildings at capitols; and its symbol is found not in the great flag flown from the dome of the capitol but in the twenty-five million flags in the homes of the people. $

Ralph Blumenthal, a Distinguished Lecturer at Baruch College and reporter for The New York Times *from 1964 to 2009, gave a lunchtime talk at the Museum of American Finance on October 29, 2019, for the 90th anniversary of Black Tuesday, 1929. This article is adapted from his presentation.*



AN ENTREPRENEUR'S BEGINNING

The Value of Free Enterprise

By Joe Ricketts

I GREW UP with awareness of both the misery and the possibility of life. My mother was raised in the 1920s and '30s on a farm in Manley, Nebraska, in a family that was not only one of the most successful farm families, but also one of the prominent families of the community. They were Catholic, and in those days in their church the people who gave the most money got the first pew, and the second biggest donors got the next pew, and so on. My grandfather's family had the first pew in their church. They bought a new car every few years. Their house was big for its time, with a pillar on each side of the front door, as compared to my father's family, who lived at that time in a log cabin. They covered it with siding so it looked like a regular house, but it was still a log cabin. Growing up in the 1920s, my mother's family was not wealthy, but they lived well as proud and prominent members of the community.

One day my grandfather bought a new bull, a major purchase for a cattle farmer, and the family threw a big party. The kitchen tables were brought out into the yard and laden with all kinds of food. There was a lot of competition among the farmers over who could produce the most from an acre of land, display the best animals, grow their crops in the straightest lines and other tests of agricultural achievement.

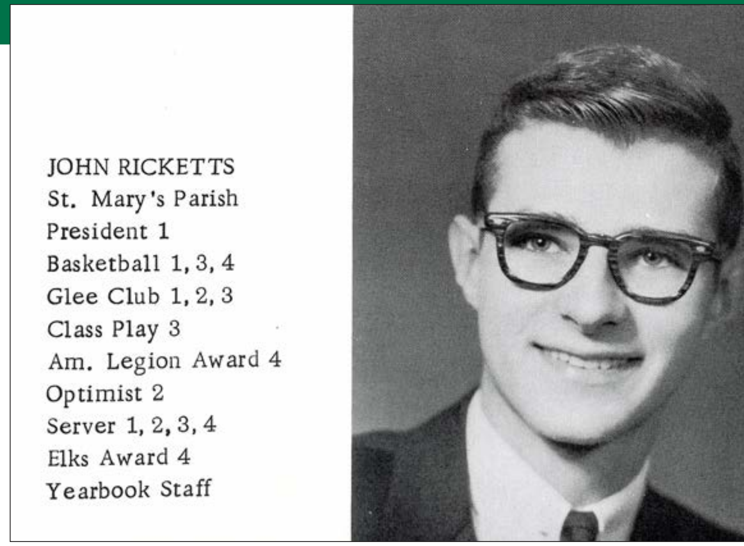
People were invited to come to this party to admire the new prize bull. It was like their own private county fair. There were games—my aunt used to tell me how guests would place bets on the number of eggs they could balance on a bull's back before the eggs started falling off—and other kinds of fun that we don't think about anymore. Sometime after the party, it was discovered that the new bull was diseased. It might have had tuberculosis or hoof-and-mouth, a deadly infection that could spread through a community and ruin all the farmers around. This was before science understood the transmission of the disease, so to make sure it would not pass beyond my grandfather's farm, his entire herd had to be destroyed. Once the vet made his diagnosis, my grandfather had no more say in the matter. The state sent men to dig an enormous hole, drive the animals in, slaughter them all and fill the hole with dirt.

Because his entire herd had been destroyed, my grandfather did not have enough income to make the payment on his farm loan, and over time, as he missed more payments, the extended family defaulted on all the loans that had supported the family's farms. By now, the Depression had begun. This was before welfare or social security was established, and so my grandparents became paupers. They lost it all.

My grandfather heard there were jobs at the packinghouse in Nebraska City, so he moved his family there. They left without any assets, and when they arrived, they rented the cheapest home they could find, one with dirt floors. My aunt was so embarrassed to have her boyfriend see where she lived that when he picked her up, she asked him to meet her at the corner.

My grandfather's plan was to get a factory job because that was the work available to a man with no skills except farming. The packinghouse was tough, dirty work. Today those places are clean, somewhat like hospitals, but back then there was blood and guts and feces lying all over. He tried, but he couldn't bring himself to go to work in the packinghouse like a boy. His life's goal had been to become a big cattleman, and before he'd lost his farm, he'd had a big sign on the side of his barn with his name and the phrase "and sons." That cattle herd had been the worldly representation of all his success and his legacy. Losing it destroyed him. He suffered a breakdown and never

Joe Ricketts' home town of Nebraska City, Nebraska, circa 1940s.



Joe Ricketts in his St. Bernard's Academy yearbook photo.

worked again. When I knew him, he spent the day in his rocker, looking out the window.

From then on, my mother was very, very conscious of the social standing her family had lost, and she was bound and determined to get back to where they had been. When she left the house, she was always dressed properly—no one but us kids ever saw her dressed for housecleaning. In church, we all had to be neat and clean, my younger brothers and me in our sport coats and freshly ironed shirts. My parents made it very clear to me: If you wanted what she called a nice life, you had to make it yourself. You had to work hard every day, and when you got what you were after, you had to keep working hard because you could lose it all. And so, I understood early on that I had to succeed on my own. Looking back, I see that I made that success my life's mission. I was fortunate to live in the United States, where we had free enterprise.

The opportunity came in the 1970s when the government deregulated stock commissions. For over 180 years, the commissions received by stockbrokers had been fixed by the predecessor of the New York Stock Exchange. The buyer and seller were not allowed to negotiate the fee. That might have made sense when there were few trades that happened slowly, but with the rise of mutual funds and other changes that increased and sped up trading, these fixed commissions came to the attention of regulators. Prominent economists suggested that reduced commissions would increase trading and stimulate the economy. The government made the decision to phase out the fixed commissions, with the big change coming in May 1975.

I was a stockbroker in those days, working for Dean Witter. Most brokers I knew believed that the rule changes wouldn't hurt us as long as we all kept charging the same commissions we had always charged. That didn't make sense to me. I had observed small businesses throughout the region, and it seemed there was always someone willing to lower prices as a way to win customers. One of my colleagues, Bob Perelman, had owned and run a grocery store, and he said that when he introduced lower-cost products, what we called "plain label" canned goods, the name brands lost customers to the generics. Now, Bob and I were coming to the same thought: Why should we stay at a full-service broker and lose the customers who want a lower price? Why not become the new brokers who get to welcome those customers?

How exactly would we do it? What steps would it take? We had no idea. We were so unprepared, so inexperienced, so just plain stupid that it is hard for me now to believe it. To begin with, we didn't know what would happen after a customer called us and requested a trade. Somehow, the buyer's money got to the seller, and the seller's stock certificate (a physical piece of paper with monetary value) got to the buyer, and records of this trade were provided to the buyer, the seller, the stock exchange and the government. That was called clearing. We didn't know the first thing about it.

"We knew *bubkes*," Bob would say later. "We knew bull. I knew nothing, and Joe knew less."

We asked the Omaha National Bank Trust Department to do our clearing for us, but they refused. They didn't know what clearing was, either. By chance, they referred us to a small storefront firm across the street that underwrote bonds and also had the licenses you needed to sell stocks. Their bond business was doing poorly, so we offered to buy them out.

Cliff Rahel, who ran the small firm, didn't want to sell, but he said he might be willing to partner with us. He liked the idea that we would bring new energy and, especially, new money into his company. In those days, it was much harder to come by venture capital than it is today. At first, he suggested that he would put in $25,000 to recapitalize, and that Bob and I together could put in another $25,000, making him the senior partner and Bob and me the junior ones.

We said no. We appreciated that he had knowledge, licenses and connections that we needed, but he couldn't be above us. "We're going to be equal partners," we told him. "If you can't do an equal partner arrangement, we're not interested."

1985 advertisement for trading by touch-tone phone. The ad features Joe Ricketts' brother, Dick, showing the world that if you have a touchtone phone, you can call in to make trades for only three pennies per share on the Accutrade system.

Tom Pleiss, Larry Collett, Jim Ricketts and Joe Ricketts pose with a trade show display for an Ameritrade, Inc. back-office data system in the early 1990s.

When Cliff realized we were serious, he proposed that a colleague come in as a fourth partner, so in a disagreement it would be two against two. We agreed. For a name, we took Omaha, because we assumed we would be a local business, and we put "First" in front of it, like banks do. We would be First Omaha Securities.

This, finally, was my chance. I was excited as hell, but my share was a lot of money to me. I had to borrow several thousand dollars from Bob, several thousand more from my brother Dick and even a little from friends. I knew that if I lost that $12,500, my life would change drastically. In those days, I was only getting by week-to-week. How would I pay back that kind of money if I lost it?

And yet, at the same time, I remember feeling comfortable. There I was in the middle of all that risk, and it felt normal. It was as if I'd been waiting for it all my life.

Of course, I knew that our business would mean work, work, work. But this work would be an adventure. There was no class you could take to explain how to succeed as a broker in the new age of negotiated commissions. No one to tell us what to do. We had to get out there with our brains and our strength and make it succeed. It was like the frontier days. We were the first beaver trappers in an unknown river valley. In my heart I believed: *This is me. This is what I was meant to be.*

Forty-five years later, that company we started sometimes handles more than a million trades a day. It employs about 10,000 people, all of whom can build lives for themselves and their families. Successes like that made this country, and they are what will keep it strong in the future. The principle I first learned as a young man still holds: the way to relieve misery and bring happiness is through free enterprise.

I prefer the term "free enterprise" to "capitalism," which sounds as if you need a lot of capital to participate. But we started Ameritrade, as many entrepreneurs do, with almost no money. Many Americans, I'm afraid, no longer respect free enterprise. The term has come to seem the property of conservatives, while liberals appear drawn instead to socialism. Many young people apparently do not understand what economists have clearly shown, which is that for this country to provide jobs for people coming into the workforce each year, we need to increase gross national product by at least 3% annually. Free enterprise is what creates new jobs and makes the economy expand. I don't see how we can be America without it.

As I looked back on my career, I wondered what I could do to convey the power and the possibility of free enterprise to a country in danger of forgetting. I wanted to show that we have the opportunity to take on the big odds and change people's lives. I realized I could show that by telling the story of how we built Ameritrade, which is a dramatic story because the outcome was always in doubt. Every year, there was a new reason we were almost driven out of business. Our story is an exciting way to show what it takes to build a breakthrough business, to make clear how entrepreneurship built this country and to demonstrate why free enterprise remains its best hope for prosperity and happiness to this day. $

Joe Ricketts is the founder, former CEO and retired chairman of online brokerage TD Ameritrade, and the author of The Harder You Work, The Luckier You Get.

US Presidents ★★★ *and the* ★★★ Federal Reserve

By Peter C. Earle

In late August 2019, Bill Dudley, former President of the Federal Reserve Bank of New York and Vice Chairman of the Federal Reserve Open Market Committee, wrote an unprecedented editorial in *Bloomberg Magazine*. In it, he took to task President Donald Trump's badgering of central bank officials via Twitter and urged current Fed Chairman Jerome Powell not to "enable" the President's policies.

A former Fed official taking the Chief Executive to task is extraordinary, but the circumstances under which it occurred seems equally so. Since April 2019, Trump has made no less than 37 tweets criticizing the Fed's implementation of monetary policy and has made numerous other comments via the media.

The New York Times has decried Trump's media attacks on the Fed as "highly unusual." *USA Today* has said that in directing comments at the Fed regarding their policies, Trump has "br[oken] long-standing taboo[s]." And the *Washington Post* laments that the 45th US President had "violate[d] another Presidential norm."

In fact, the current President's comments only qualify as unusual on account of their directness and don't (really) break any long-standing codes of conduct. Instead, they call attention to one of the most sturdily-held shibboleths of American domestic policy: the independence of the United States Federal Reserve Bank.

While it ostensibly "make[s] monetary policy independently of short-term political influence," the Fed—by virtue of its structure, mission creep and the nature of its particular "policy lever"—is inevitably thrust into the political sphere.

Going back to the 1920s, American Presidents have both explicitly and implicitly requested, cajoled and even threatened the central bank's officials. At times, Fed officials have resisted those overtures, and at other times they seem to have acceded to those demands.

A Labyrinthine Organizational Structure

The Fed's very organizational structure—initially designed and modified over time to placate various public and private interests—subjects it to regular engagement with political and private interests.

- Fed officials are appointed by the Executive Branch and confirmed by Congress; many rise to prominence through positions at the US Treasury or on the Council of Economic Advisors;
- Private meetings between the Fed Chairman and Presidents are a long-standing fixture of economic policy coordination and implementation;
- The Fed Chairman and other Fed officials testify publicly before Congress twice every year, which includes a sometimes-contentious question-and-answer session;
- Leadership at the 12 regional Federal Reserve Banks are made up of appointees of the member banks which essentially own them; not by the President or Congress, but by regional bankers and business executives. (Historically, they tend to be more hawkish than the seven governors of the Federal Reserve, who are appointed by the President and confirmed by the Senate);
- In times of war, disaster or under other unusual circumstances, the Fed is expected to work closely with the US Treasury and other government agencies to coordinate monetary, fiscal and other policy initiatives.

Even with this mixed private-public structure, the Federal Reserve was partially immune to the full range of political manipulation for its first six decades by virtue of the gold standard: with the gold price pegged amid the international system of fixed exchange rates, Fed control of the growth of the money supply was bound. But with the end of the dollar's convertibility to gold in 1971, and thus the end of exposure to market discipline, the way was paved for the potential politicization of the Federal Reserve.

A Century of Mission Creep

Upon its founding in 1913, the Federal Reserve's exclusive mandate was to prevent financial panics and bank runs. This was the case until 1946 when, inspired by both the Great Depression experience and millions of veterans returning to the workforce from foreign battlefields, Congress passed the Employment Act.

This added to the Fed's mandate the requirement that monetary policy be conducted in a way that promotes "conditions under which there will be afforded useful employment opportunities…and to promote maximum employment, production and purchasing power."

The 1978 Full Employment and Balanced Growth Act ("Humphrey-Hawkins") added "reasonable price stability" to the Fed's mandate, additionally requiring that the Board of Governors conduct monetary policy in a way that "maintains long-run growth," that they transmit a monetary policy report to Congress twice a year and that they conduct monetary policy in conjunction with, and in support of, the economic policy and goals of the Executive Branch. (It has been suggested that the addition of financial stability to the Fed's

duties in the wake of the 2008 financial crisis effectively constitutes a third mandate.)

As the Fed's mandate has expanded into the macroeconomic realm, it has necessarily been tied increasingly to elected officials. Add in the unique characteristics of monetary policy—that unlike fiscal policy, it can be implemented effectively immediately, affects the economy generally and requires neither deal making within or the approval of the Legislative Branch—and the litany of incentives for exerting political influence upon Fed officials is clear.

Monetary Versus Fiscal Policy

The inclination to influence the Fed has essentially everything to do with the separate and distinct attributes of the federal government's two means of impacting the domestic economy: fiscal policy and monetary policy.

Fiscal policy targets spending levels (consumption) via taxation and stimulus measures; it is enacted by Congress. Monetary policy, enacted by the Fed, involves influencing the money supply and interest rates. Not only is the monetary policy route faster-acting, cheaper (no debt is incurred) and arguably more powerful (money "touches" everything), it additionally doesn't require the sort of horse-trading and lengthy negotiation that legislative efforts take. Monetary policy measures can be implemented in a very short amount of time (hours) and via the decisions of a mere handful of top people.

A Brief History of Jawboning

There's little doubt that in an age of social media, it has become easier to rally public opinion in favor of Fed action. But Presidents attempting to influence the Fed did not start (and probably will not end) with the current Chief Executive. With specific reference to direct, public jawboning of the type which the current President has been taken to task for, a partial list of previous examples bear listing.

Harry S. Truman, in early 1951, summoned the FOMC to a meeting at the White House in which he insisted that they continue to support Treasury bond prices.

Lyndon Johnson, in his 1967 State of the Union address, made the following statement:

> "Monetary conditions are also easing. Most interest rates have retreated from their earlier peaks. More money now seems to be available. Given the cooperation of the Federal Reserve System, which I so earnestly seek, I am confident that this movement can continue. I pledge the American people that I will do everything in a President's power to lower interest rates and to ease money in this country…toward easier credit and toward lower interest rates."

The Nixon tapes hold copious evidence of direct and indirect attempts to influence the Fed. Publicly, Richard Nixon had this to say upon appointing Arthur Burns to the Fed Chairman position in 1970:

> "Ladies and gentlemen, as all of you know, the Federal Reserve is independent, certainly independent of the President, although the Congress would suggest that it is not independent of the Congress. I respect that independence. On the other hand, I do have the opportunity as President to convey my views to the Chairman of the Federal Reserve in meetings with … the Secretary of the Treasury and the Chairman of the Council of Economic Advisers … I have some very strong views on some of these economic matters and I can assure you that I will convey them…I respect his independence. However, I hope that independently he will conclude that my views are the ones that should be followed."

And in a later phone call between Nixon and Burns (via transcript):

> Nixon: "Arthur, [garbled]. You're independent! [Burns laughs]. Independent! You get it up. I don't want any more nasty letters from people about it. OK?"
>
> Burns: "That [no more nasty letters], I can't guarantee."
>
> Later,
>
> Nixon: "The whole point is, get it [the money supply] up. You know, fair enough? Kick it!"

With skyrocketing inflation in the late 1970s, the Fed under Chairman Paul Volcker began a grueling interest rate hiking campaign. Knowing that the continuation of continually higher rates would be politically damaging with an election a few months away—and under pressure from both certain sectors of Congress and organized labor—Jimmy Carter announced the following alternative, a restraint on the growth of credit, during a televised broadcast in 1980, despite the Fed's opposition:

Left: President Barack Obama announces Janet Yellen as his choice to chair the Federal Reserve, October 9, 2013. *(Credit: Win McNamee)*

Right: President Ronald Reagan announces that Alan Greenspan will replace Paul Volcker as Federal Reserve Chairman at a press conference on June 1, 1987, as Treasury Secretary James A. Baker III looks on. *(Credit: Diana Walker)*

"The traditional tools used by the Federal Reserve to control money and credit expansion are a basic part of the fight against inflation. But in present circumstances, these tools need to be reinforced so that effective constraint can be achieved in ways that spread the burden reasonably and fairly. I'm therefore using my power under the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on the growth of credit on a limited and on a carefully targeted basis. Under this authority the Federal Reserve will first establish controls for credit cards and other unsecured loans but not for secured loans on homes, automobiles, and other durable goods, and second, to restrain credit extensions by commercial banks that are not members of the Federal Reserve System and also by certain other money market lenders."

Ronald Reagan's first State of the Union address in 1981:

"The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply. Now, we fully recognize the independence of the Federal Reserve System and will do nothing to interfere with or undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that'll make their job easier in reducing monetary growth."

George H.W. Bush speaking to *The New York Times* in 1992:

"I'd like to see another lowering of interest rates. I think there's room to do that. I can understand people worrying about inflation. But I don't think that's the big problem now…I think inflation appears to be pretty well under control. I don't think the argument that lowering the rates will stimulate the long-term—shoot the long-term rates up—is valid anymore. And so, yes, I'd like to see it come down."

Bill Clinton strongly signaled that his relationship with the Fed would be prominent going forward by his placement of Fed Chairman Alan Greenspan at his first State of the Union address in January 1993:

"Tongues began to wag when Federal Reserve Chairman Alan Greenspan appeared at President Clinton's State of the Union address sitting between Hillary Rodham Clinton and Tipper Gore. What on earth was the conservative, Republican, inflation-fighting Chairman of the nation's central bank doing sitting next to the wife of the liberal, Democratic, growth-boosting President? Startled financial analysts and even some Fed officials wondered why Greenspan would send such a dramatic signal that he was making common cause with Clinton. Simply by sitting there, he appeared to be sacrificing a slice of the Fed's vaunted independence…In early December, when Clinton invited the Fed Chairman to fly to Little Rock, Arkansas, to discuss economic policy issues, the scheduled hour long session stretched to 2½ hours and included lunch. They clearly had hit it off."

George W. Bush, arriving in Washington, DC after his contentious election, similarly signaled the pivotal nature of the Fed in his administration's plans by making his first stop a breakfast with then-Chairman Alan Greenspan.

"Mr. Greenspan, who was welcoming the fourth President to pass through during his 13-year tenure, briefed Mr. Bush on the state of the economy. He may also have indicated whether, as the stock market expects, he will announce a loosening of the Fed's monetary policy by reducing interest rates today. Mr. Bush was forthright in his admiration for Mr. Greenspan, who took the key job in 1987. He said, laying his hand on the Chairman's shoulder: 'I talked with a good man right here. We had a very strong discussion about my confidence in his abilities…' For part of their breakfast the two men were alone together, later being joined by Vice President-elect Dick Cheney and members of the new administration's prospective economic team."

Barack Obama's public record shows little by way of comments directed at Federal Reserve officials or pertaining to Fed policies, which seems surprising and somewhat refreshing. In fact, though, circumstances precluded his doing so: with the Fed Funds rate target set below 0.5%

Left: President George W. Bush announces the nomination of Ben Bernanke as the new Federal Reserve Chairman at a press conference on October 24, 2005, as current Federal Reserve Chairman Alan Greenspan looks on. *(Credit: Jim Watson)*

Right: Federal Reserve Board Chairman Alan Greenspan speaks to the press after being reappointed by President George H.W. Bush to a second four-year term. *(Credit: Bettmann)*

for the duration of his presidency, the effective zero boundary precluded action other than a return to higher rates. In short, there was nothing to say: the only way for rates to move was "up."

Expect More of the Same

The entire exercise of introducing evidence that the Fed isn't politically independent is moot from the start, though. For despite what numerous media outlets have taken the President to task for, the Q&A section of the Richmond Fed website asserts that, in fact, "the Federal Reserve can be more accurately described as 'independent within the government' rather than 'independent of government.'"

The Fed is independent within the government, in part, because it is self-financed and does not depend on Congressional appropriations or Presidential recommendations for its funding. By the same token, neither the President or Congress can bully the Fed by cutting its budget. That's not the case with most other federal regulatory agencies, or even the IRS.

Consider what incontestable political independence would actually require: at the very least, every one of the Fed's political ties—appointments, testimony, the ability to expand or reduce their mandate, etc.—would have to be severed. To inoculate them from indirect political pressure, the identity of Fed officials would have to be essentially secret.

As currently structured, and considering both the raft of directives that it labors under and the unique attributes of monetary policy, it is cogent to expect elected officials to attempt to sway Fed actions. It was going on for decades before the current President took office and, barring changes, will continue to do so. That any institution exercising as tremendous a mandate as managing the money supply of the world's largest economy (and the world's reserve currency, to boot) would go unheeded in the corridors of political power is unrealistic at best.

In that sense, the Federal Reserve is something of an embodiment of the Hayekian adage: a reminder that, at times, economics is a constant lesson in letting people know what they cannot design. $

Peter C. Earle is a Research Fellow at the American Institute for Economic Research. He spent two decades as a trader and now focuses on financial markets, monetary policy and currencies.

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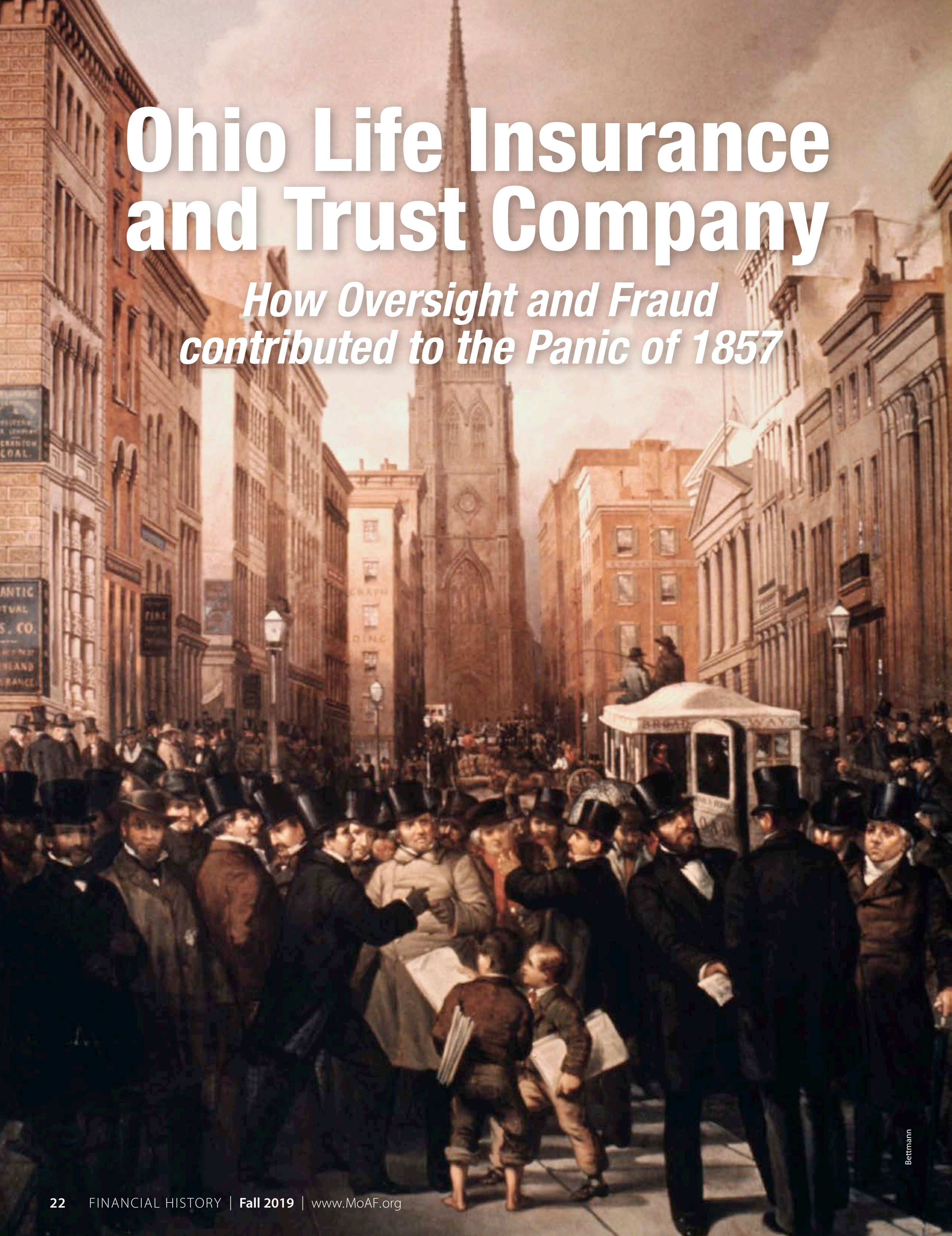
Left: President Richard Nixon confers with his monetary advisors at the White House. From left to right: John D. Erlichman, Domestic Council; Arthur Burns, soon to become Chairman of the Federal Reserve; President Nixon; and Budget Director Robert P. Mayo. *(Credit: Bettmann)*

Right: Federal Reserve Chairman Alan Greenspan speaks to the media in the Oval Office of the White House beside President Bill Clinton, January 4, 2000. *(Credit: Mario Tama)*

Ohio Life Insurance and Trust Company

How Oversight and Fraud contributed to the Panic of 1857



Bettmann

By Ramon Vasconcellos

A mass gathering of unemployed New Yorkers swelled the ranks of Tompkins Square on November 6, 1857. Speakers rallied in support of Mayor Fernando Wood's proposal for a considerable public works program, the adoption of which could mitigate the plight of the unemployed due to the recent national business downturn. From the square, a "disorderly, fierce, and noisy" crowd marched on Wall Street, one marcher stating that workingmen should not starve while 20 million in specie (gold and silver coin) sat unused in the city's banks. While the crowd did not cause any ruckus on Wall Street that afternoon, the city's financial condition had worsened since the summer; Wall Street bankers had little appetite for lending, allowing specie deposits to increase by 46.7% during August alone. Further, consumer deposits in the city's banks had dwindled from $94.5 million to $75.8 million that summer. Exacerbating the credit crisis even more and contributing to a major correction on the Street, a substantial creditor and holding company in New York City, Ohio Life Insurance and Trust Company, collapsed on August 24, 1857.

Ohio Life Insurance and Trust Company, organized and incorporated in Cincinnati in 1834, functioned as a life insurer, trustee, mortgage holder and financial intermediary for Ohio banks operating on Wall Street. Its founders consisted of a "who's who" in Ohio politics: former US Senator Jacob Burnet of Ohio, US District Judge Benjamin Tappan and Ohio Supreme Court judge Alvin Peace, to name a few. In accordance with its charter, the firm had a total capitalization at the time of $2 million comprised of bonds and interest-bearing notes. The charter allowed the firm to establish branches without banking powers and required that profits be invested in federal, state, municipal and corporate securities. Ohio Life could also issue bills and promissory notes equal to twice the amount of funds deposited for less than a year, but greater than one half its paid-in-capital. Revocation of Ohio's charter would result from the suspension of specie payment, or if it charged interest greater than 7% on transactions.

Painting depicting the Panic of 1857, entitled "Wall Street, Half Past Two O'Clock, October 13, 1857," by James H. Cafferty and Charles G. Rosenberg.

Though such policies seemed prudent, the founders were often at odds with the Ohio Life trustees over lending practices. Furthermore, the company sometimes violated its state charter. For example, during the 1830s, management ignored restrictions on the non-extension of loans beyond maturity and, in violation of its charter, issued "accommodation" paper requiring no security deposit other than the borrower's reputation for the purposes of land and commodity speculation. Even debtors obliged to short-term instruments might have their notes extended beyond 100 days. One particular founder and New York financier, Arthur Bronson, whose father had co-founded the New York Mercantile Bank with Alexander Hamilton, recognized the imprudence of such measures and resigned from the Board of Trustees in 1837. The trustees' cavalier, throw caution to the wind attitude of fiscal management would only set the course of Ohio Life's demise. The harbinger of the company's doom on the eve of the Panic of 1857 would partially rest with its New York manager, Edwin G. Ludlow, an embezzler and to some extent, pawn, of the Ohio trustees, employed with the firm since 1842.

Not long after opening in Cincinnati, the company established offices in New York City. Abstaining from insurance underwriting, Ohio Life's New York offices operated primarily as depositors for bank funds. The branches served both as bank holding companies and for the purpose of attracting capital for western industries, particularly railroads, which, by the early 1850s, required substantial amounts of credit for land purchases and track construction. For such purposes, bank drafts originating from loans undertaken by Ohio Life through the New York money markets were sold out West. In turn, New York banks served as Ohio Life's creditors for both loans made directly to the company and for drafts sent by Western companies due for reimbursement.

As described by one historian, Ohio Life acted more as a bank of function because it was "not a bank of issue" when it came to originating bills backed by specie. Day-to-day operations of the New York offices consisted of holding bills of exchange, accepting deposits, paying drafts and engaging in collections. Having general oversight of these tasks fell to the head cashier who also served as the Transfer Agent of Ohio. As the state's agent, he followed the advice of both the company's executives and state government officials regarding the proper investment selection of surplus funds. Unlike the contemporary duties of a manager supervising tellers (cashiers) employed by a bank in 2019, the head cashier of Ohio Life acted as the lead financial officer and manager of the New York branch offices. In February of 1855, Edwin Ludlow, the aforementioned pawn who would prove central to Ohio Life's downfall, became head cashier.

Before Ludlow's tenure and sometimes purposeful malfeasance, Ohio Life's trustees, as briefly described earlier, exposed the firm to fiscal mismanagement decades before the events of 1857. An example of this is the Panic of 1837. As opposed to foreclosing on delinquent non-performing loans resulting from the crisis, the trustees granted borrowers a two-year grace period on their obligations. Though presumably altruistic in light of the degree of economic dislocation caused by the slump, it was arguably fiscally unwise given that the firm had obligations due its creditors.

Overdrafts, too, involving the New York operation prompted one financially savvy cashier, George Coe, to inform Ohio Life's president that "your paper [used as collateral for call loans by the New York branch] is not of the available and No. 1 character that the banks here most seek." Coe further expressed his concern about the suitability of railroad securities held by the home office, commenting "that railroad securities must, from excessive creation, by and by, meet the same fate of similar securities in England." His alarm referenced a financial crisis inflicting England in 1847. Coe's presence as head cashier until his resignation 1853 instilled a brief period of fiscal stability at Ohio Life; his successor, Charles Rockwell, displayed similar talents. Yet cashiers like Coe and Rockwell would unfortunately prove anomalies, and a cash strapped state government in Ohio would only compound the company's troubles.

Periodic fiscal instability in Ohio during the 1830s and into the 1850s found the legislature adding to the tax burden of its businesses. Since Ohio Life's inception,

the state had taxed dividends declared by banks and financial institutions at 5%, but raised the rate to 20% by March of 1836. Moreover, the state's continued fiscal woes prodded the legislature in 1851 to adopt a law stipulating that "the property of corporations…shall be subject to taxation, the same as the property of private individuals." Financial journalists opined that in the wake of such burdensome taxation, Ohio Life might have to shut down its operations.

Nevertheless, the company weathered the storm even as the regulatory burdens made Ohio Life's business that much more difficult. For instance, citing the irregularity of dividend payments because of underperforming assets as an issue, the state finance committee suggested in 1852 that Ohio Life: (1) amend its charter for the creation of additional stock used for the purpose of bank capital and (2) submit five percent of its profits for income tax purposes. Such external shocks of taxes and regulations, coupled with internal mismanagement by the trustees, would push Ohio Life to its financial precipice; embezzlement would propel it into an economic abyss.

In all fairness, Ludlow often acted upon the instruction of Ohio Life's trustees. Recognizing that headquarters frequently ran into liquidity problems while the New York branches generally remained solvent, New York's personnel were constantly pressured into funneling cash to Cincinnati. Ludlow's first experience with one of seemingly numerous cash short falls caused by headquarters occurred almost immediately after his promotion in 1855. At the time, $200,000 of a loan amount totaling $600,000, borrowed when Ohio Life commenced operations, came due on March 1; Ludlow, with funds drawn from New York, had to cover the current liability. Further still, the home office issued excessive drafts New York covered, and during the first four months of 1856, its debt obligations held by the New York offices exceeded the previous year's average. In May of 1856 it was estimated that Ohio Life had only $346,925.92 in callable assets for immediate collection. This amounted to only 23% of the amount of their obligations *subject to call.*

Another problem facing the company was the composition of its asset portfolio which, due to a significant number of railroad debt instruments, exposed the firm

Heritage Auctions, HA.com

$10 bank note proof from the Ohio Life Insurance & Trust Company.

to considerable default risk. For example, by 1857, Ohio Life had already lent $5 million to railroad construction firms and held a substantial amount of railroad equities. Not that the firm acted alone, however, for, in keeping with the demand for railroad expansion, creditors lent millions to railroads during this era. As posited by historian Kenneth Stampp, railroads contributed greatly to the advancement of the domestic economy during the 1850s. Stampp cites the construction of track and consolidation within the industry as primary contributors to growth.

By one estimate, 24,476 miles of track had been completed in July of 1857 with several thousand still under construction at the time. Westward migration, too, of both immigrants and those leaving the eastern seaboard would only further spur investment in this industry; railroad investment grew from $37 million in 1849 to $111 million by 1854. By 1854, however, earnings of many of the older western lines diminished because of the ferocity of competition among competitors looking to establish permanency out west. Newer railroads establishing themselves in the West provided speculative opportunities for investors.

Hunt's Merchant Magazine, a US commercial review periodical of the mid-19th century, remarked that same year how a borrowing frenzy had gripped railroad developers, but lenders would eventually curb their enthusiasm. The *Hunt's* commentator opined "…borrowers…are pressing their bonds upon the public"; yet the writer further noted those railroads not completed "will be obliged to postpone their operations to a period when the money market will be more compliant." Still, a "railroad fever" would continue fascinating the nation, much of it attributable to the growing interest in Kansas settlements by those interested in expanding slavery or making it a free state.

However, railroad failures would compound the economic crisis of 1857, primarily because of their excessive use of debt financing for westward expansion. By 1858, many of these lines, though still operational, found themselves either in bankruptcy or with their debt trading well below par on Wall Street.

In a judgement by the US Circuit Court, Southern District of Ohio for the purpose of reimbursing Ohio Life's creditors subsequent to its default on August 24, the court determined substantial amounts of money were loaned to both individuals and railroads lacking sufficient collateral. The court chastised Ohio Life's trustees (and Ludlow) for also making railroad security purchases which declined in value during the Panic. In fact, Ludlow, in early 1857, acting to boost the value of railroad assets held by the New York offices, paid off a loan made by the Cleveland and Pittsburgh Railroad and failed to disclose the transaction in his report to the trustees.

The Cleveland and Pittsburgh affair not only demonstrated Ludlow's willingness to compromise his fiduciary responsibilities, but further conveyed a lack of sophistication for risk assessment. The railroad's stock dropped from $39.50 in July of 1857 to $20 per share that August. Its bonds tumbled from $93 in September to $50 by November of 1858. Of course, Ludlow (or the trustees)

would have no control over market prices for these assets prior to and during the Panic, but the lack of portfolio diversification evidenced a careless attitude on his behalf regarding investment selection. Similar railroad equities and debt instruments held by Ohio Life Insurance and Trust would perform in a similar fashion, leaving little equity on its balance sheet and cents on the dollar for its bond holdings.

Aside from purposely compromising his fiduciary responsibilities, Ludlow, presumably done for maintaining sufficient liquidity, continuously yielded to the ill-advised practices of the company trustees. For instance, a director of Ohio Life, acting on behalf of the trustees, suggested in December of 1856 that Ludlow "coax" several New York banks into underwriting short-term loans up to $200,000. In turn, the Ohio branch utilized the proceeds for speculation; Ludlow, perhaps reluctantly, complied. Still, he displayed absolute complicity when faced with another liquidity crisis. In what a state investigating committee would describe as a "kiting operation" in 1856, Ludlow admitted complicity with the trustees to purchase Ohio municipal bonds at a discount to par. The discount went *undisclosed* prior to their resale (presumably at a price greater than the discount received) to New York investors**.** Not only was the transaction duplicitous, but by keeping the remaining bonds as inventory, Ohio Life employed illegitimate collateral for the purpose of falsifying its liquidity.

Given that its creditors were now aware of substantial mismanagement and illiquidity issues plaguing the company, by early 1857, attempts at maintaining adequate capital reserves seemed beyond the reach of Ohio Life. What's more, the stock price traded on relatively low volume early to mid-year, consistently staying below $100 per share—a level considered risky to Ohio's equity position. Ludlow, again willing to adopt a "go at it alone" approach in hopes of benefiting Ohio Life, commenced a stock purchase scheme to increase its price. Although volume picked up and the stock traded as high as $99, investors —sensing an overvaluation in the stock —commenced a "bear attack," or short selling. In essence, they sold borrowed shares of stock in the hopes of repurchasing them at a lower price. Adding to this unintended consequence, Ludlow discovered *one of Ohio's New York trustees had shorted 400 shares of company stock!*

Undeterred and presumably still hoping to alleviate further problems, Ludlow, consistent in his non-fiduciary approach to his duties, originated loans (Ohio Life's stock serving as collateral) to investors and himself amounting to $282,193. He further engaged in "off balance sheet" activities, whereby he personally borrowed money and incurred debt not reported as assets or liabilities on Ohio Life's balance sheet. Such a practice further deteriorated the company's equity position and increased indebtedness. Ludlow also refused to submit financial statements for internal audit purposes.

Two days prior to Ohio Life's collapse, on August 22, Ludlow solicited emergency funding from members of New York City's banks. By this time, most lenders had either heard of the firm's incessant liquidity problems or were creditors of what would soon become the defaulted obligations of the company. Predictably, lines of credit were non-existent since Ohio Life had lost the faith of New York City's banking community because of mismanagement, fraud and the sullied reputation of its head cashier. Facing no other alternative, Charles Stetson, Ohio Life's president, announced on August 24 that the company had suspended payment on all its obligations. Essentially, the New York offices and headquarters of Ohio Life Insurance and Trust closed their doors, permanently.

After his arrest, for the purposes of settling outstanding financial claims due to his embezzlements, Ludlow agreed he would deliver personally held railroad stocks and bonds into the possession of Ohio Life's creditors and the trustees. Though many were, in fact, of diminished value and failed to satisfy the financial needs of creditors, he faced no jail time. Ludlow would win back some degree of respectability in the not-too-distant future; Abraham Lincoln nominated him as captain and assistant quartermaster of volunteers in New York City in 1862. He later became a lieutenant colonel by the end of the Civil War.

Although major banks in New York City had begun limiting the amount of loan originations (particularly to railroads for reasons mentioned earlier) early in 1857, their efforts had little impact on the economy. That is until Ohio Life and Trust's collapse. Writer J.S. Gibbons, whose work entitled *The Banks of New York, Their Dealers, The Clearing House, and the Panic of 1857* was published in 1864, commented that the impact of its closure "struck on the public mind like a cannon shot." The failure, while not causing the panic, produced a major sell off on Wall Street with a 3–7% decrease in stock valuations in the aftermath. When those New Yorkers marching from Tomkins Square in fall of 1857 for public relief also descended upon Wall Street demanding banks release funds, their appeals fell upon deaf ears. A lending paralysis had gripped New York's banking community, the effects of which would last into 1859. $

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Revisiting Keynes' *Economic Consequences*

By Michael A. Martorelli

In June 1919, economist John Maynard Keynes resigned from his position as part of the British delegation at the Paris Peace Conference. He claimed that many provisions of the Treaty of Versailles made that document a Carthaginian Peace that was designed to be overly harsh and punitive. He especially warned that the call for reparations from Germany to the Allied and Associated powers would be problematic for all parties and would hurt the European economy for years to come. In December 1919, he substantiated his arguments in *The Economic Consequences of the Peace*. That rather short book became a best seller and the subject of much commentary and debate. One hundred years after its publication, it seems an appropriate time to re-examine Keynes' work.

Keynes' apprehensions about the unwise nature of the terms he feared would be forced upon the losing side in the Great War surfaced even before he attended the peace conference to establish the terms for ending that conflict. In January 1916, he co-authored a memorandum for the British Board of Trade suggesting that the indemnity paid by France to Germany after the Franco-Prussian War in 1871 had damaged the economies of both the victor and the loser. Even with the on-going war's outcome still in doubt, the memo advised against requiring what its authors hoped would be the losing coalition of Germany and the Central Powers to pay for the physical damages done throughout France, Belgium and other Allied countries. Keynes particularly feared the negative consequences that would result if a subsequent peace treaty did not permit Germany to regain a level of economic stability that enabled the country to re-claim its role as perhaps the most important participant in the European economy.

After several years of stalemated warfare, by the autumn 1918, the presence of an increasing number of troops from the United States was shifting the tide of battle towards the Allies. In early October, German Chancellor Max von Baden telegraphed President Woodrow Wilson in Washington and asked for an armistice based on Wilson's "Fourteen Points" address of the previous January. That speech reflected the President's hopes for a "peace without victory" that would not involve a victor's call for punitive terms against a loser. President Wilson reiterated his high-minded and principled ideas several times throughout 1918, stating that the United States would be committed to finding an eventual peace that would be without annexations, contributions or punitive damages. He asserted that the treaty that would end the war between Germany and the Allies must not impose harsh terms on the losers in the conflict; it should neither humiliate them nor lead to resentment against the victors.

German and American officials spent much of October 1918 in frustrating and

Dignitaries gather in the Hall of Mirrors at the Palace of Versailles, France, to sign the Treaty of Versailles ending World War I, June 28, 1919.

fruitless negotiations over the terms of a possible armistice. Unfortunately, after Kaiser Wilhelm II abdicated on November 9, it was not President Wilson who dictated the terms of the agreement that stopped the hostilities, but the Commander-in-Chief of the Allied Armies, Field Marshall Ferdinand Foch. Foch forced a weakened German nation to avoid further destruction and sign the November 11 armistice that included terms he knew were harsher than those that would have been included in a document drafted by the Allies' political leaders. Among other things, the armistice called for an unspecified amount of reparations, the continuation of a naval blockade of Germany and the surrender of hundreds of pieces of German war materiel. President Wilson's "Fourteen Points" ideas of open diplomacy, freedom of the seas, the removal of economic barriers and impartial adjustments of colonial claims did not appear in the text.

In January 1919, hundreds of diplomats, politicians and advisers from more than two dozen countries convened for the Paris Peace Conference. While they were there to craft peace treaties between all the warring parties, their most important task was to write the one ending the war between Germany and the Allies. It quickly became apparent that President Wilson, British Prime Minister David Lloyd George and French Prime Minister George Clemenceau would be the dominant figures in handling that challenge. It also became apparent that the British and French leaders did not share President Wilson's idea of a peace without victory. Having witnessed unprecedented levels of death and destruction to their economies and their populations, they wanted to punish Germany and reap the traditional rewards of conquest.

Clemenceau pushed for reparations for damages and wanted to weaken Germany militarily, economically and territorially. Lloyd George did not oppose reparations, but he recognized the need for an economically viable Germany if the European economy was ever to regain its strength. President Wilson acknowledged the need to seek justice for the mayhem committed by Germany in starting the war. But his most important objectives involved the creation of a League of Nations that would help ensure a long-lasting peace.

As a member of the British delegation to the peace conference, John Maynard Keynes tried to counter the Allies' initial demands for punitive reparation payments by circulating his analysis of Germany's limited ability to pay more than a small fraction of a British cabinet committee's estimate of total war costs of £24 billion. He also formalized his earlier thoughts on another economic issue by suggesting that the Allied and Associated Powers cancel all debts among themselves. Those countries freely admitted they would be using the anticipated reparation payments from Germany to repay their inter-Allied loans. Keynes concluded that

Portrait of Economist John Maynard Keynes, circa 1925–1930.

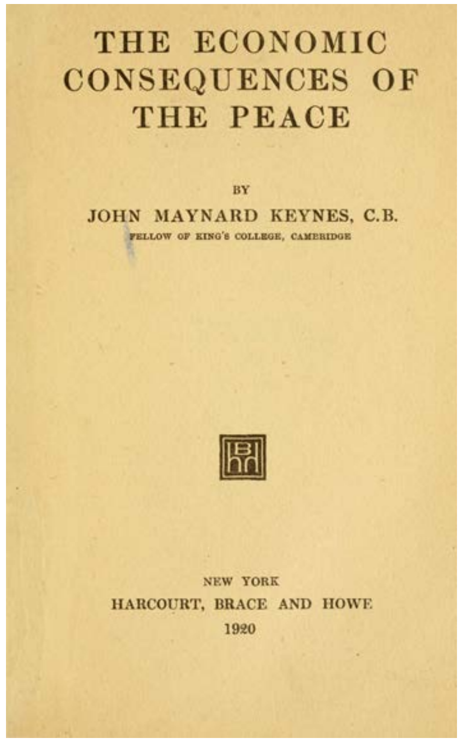
relieving Great Britain, France and others of their obligation to repay US government loans totaling more than $11 billion would lessen those countries' dependence on reparations from Germany. Thus, the conferees could demand proportionately lower reparation payments from Germany and enable that country to regain a greater degree of its lost economic strength. But the American delegation strongly opposed the cancellation of inter-Allied debts.

Throughout the spring, Keynes used letters to friends and relatives to express his feelings of disappointment and anger over the punitive terms that were being inserted into each draft of the treaty. He could not believe the Allies would not provide sufficient funds to address the mass starvation occurring throughout Germany and Austria; he recognized the spirit of vindictiveness, not compassion, in the financial terms of the reparations; and he regretted the delegates' failure to address the challenge of rebuilding the economic system of Europe.

The Allies did not permit any German representatives to participate in drafting the terms of the peace treaty. In early May, they allowed a delegation of German officials to see the final draft of that document. Based on his earlier comments, Keynes' resignation from the British delegation in early June could not have surprised his colleagues. Indeed, after listening to the Germans' outraged protests over many provisions of the treaty, some members of the Allied delegations began to question the document's harshest terms; several of them also resigned. Ultimately, the representatives of a divided German government agreed to sign the Treaty of Versailles by the conferees' June 28 deadline, even though they continued to object to provisions involving Germany's losses of territory and the requirement to pay reparations. The latter issue had been so controversial among the delegates that the treaty deferred the calculation of the amount and timing of those payments to an inter-Allied Reparation Commission that would be convened before May 1, 1921.

The treaty that ended the state of war between Germany and the Allied and Associated powers consisted of 15 parts, 445 articles and numerous annexes and maps. Its harshest provisions called for:

- the acceptance of Germany's guilt in causing the war;



THE ECONOMIC CONSEQUENCES OF THE PEACE

BY

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NEW YORK

HARCOURT, BRACE AND HOWE

1920

Title page of *The Economic Consequences of the Peace,* by John Maynard Keynes, 1920.

- the partial payment of reparations of £1 billion for injuries to civilians, damages to non-military property and pensions for war widows;
- the surrender of all overseas German colonies;
- the elimination of Germany's merchant marine and its access to major waterways;
- restrictions on the size of the German armed forces, and proscriptions against tanks, artillery pieces, airships and submarines;
- changes in Germany's boundaries that would cede Alsace-Lorraine and the coal mines in the Saar to France, and other property to Czechoslovakia and Poland.

President Wilson's "Fourteen Points" had not envisioned any of these terms; with the exception of a vague mention of reparations, neither had the November 1918 armistice.

It is useful to separate Keynes' objections over the Treaty of Versailles into three components. Two were closely related. He devoted 54 of *The Economic Consequences*' 142 pages to his analysis of the most reasonable amount of relevant damages in seven different categories that could have been attributed to Germany in its conduct of the war. He estimated that the Allies eventually would present Germany with a bill for £32 billion. But in analyzing Germany's ability to use all its monetary and physical resources to pay reparations, Keynes suggested that it could afford to disburse no more than £2 billion.

In comments sprinkled throughout the rest of the book, he explained how many other terms of the treaty would damage the economies of both Germany and Europe for the foreseeable future. Specifically, he delved into the problems that would result from imposing terms such as the following:

- the cessation of land;
- restrictions on Germanys' access to international waterways;
- the imposition of labor standards and worker protections;
- requirements to grant special trade terms while selling particular products to specific countries;
- renouncing special trading privileges Germany previously held;
- transferring tens of thousands of horses, cows and sheep to France and Belgium;
- granting the full freedom of overland navigation, as well as the international use of all rivers and airfields.

Keynes concluded that these and other terms would combine to keep Germany's economy in a constant state of disrepair. Moreover, the economist asserted that such a state of disorder would infect other European countries and prevent the continent's economic system from recovering from the damage done to it during the past four years. In justifying his concerns over such matters, Keynes spent a good deal of ink reviewing the important role of Germany in the pre-1914 European economy. He noted that the country's strength rested on the combination of overseas commerce, coal and iron resources, and transport and tariff systems. Severely limiting the country's authority over those strengths did not seem like a wise policy.

Separately, if it was not clear from hearing or reading Keynes' frequent comments during the peace conference, it was certainly apparent from reading his book that his most fervent objection was to the vindictive and vengeful tone at Paris.

He criticized the motives and abilities of Wilson, Lloyd George and Clemenceau, and he accused them of violating both the spirit and the letter of President Wilson's "Fourteen Points." He expressed regret that the conferees had not included in the treaty any ideas for helping the economics of Germany or Europe to recover back to their pre-war levels. In Keynes' opinion, not including any German representatives in the crafting of the treaty was yet another indicator of the Allied negotiators' primary interest in punishment and vengeance, not in reconciliation. Importantly, by attacking the basic morality of the treaty as soon as he did after its signing, Keynes was largely responsible for establishing the tone of the debate over its effectiveness.

The reaction to Keynes' book was swift. Many observers praised his detailed analysis of the reparations issue and the likely impact of other economic terms. But even those who supported the essence of his arguments had to acknowledge their own inability to verify Keynes' economic assumptions and calculations. Therefore, it was difficult for any reader to validate his prediction of economic doom for Germany and Europe. Some reviewers did question his version of the pre-1914 European economy. None, however, were able to marshal the amount of facts Keynes presented as he documented his assertions about Germany's past strengths and the need for the treaty to recognize their future importance.

More fundamentally, many critics believed the author's unflattering portraits of the main Allied negotiators and their actions during the crafting of the treaty undermined his economic analysis. They viewed the book not as a dispassionate commentary on the treaty's economic terms, but as an emotional argument against the basic premise of both the peace conference and the treaty. For the most part, readers expressing their agreement or disagreement with Keynes' political or economic observations did so because they validated their own personal or institutional opinions. Few commented on the wisdom or feasibility of his specific suggestions for improving the treaty. Indeed, it quickly became apparent that the exhausted negotiators would not consider any of them.

During the past 100 years, many authors have examined the accuracy of Keynes' analysis and predictions. Few have done so without the benefit of hindsight, that is without referring to the way the flow of events in the 1920s and 1930s affected Germany's fortunes and Keynes' financial predictions. It's worthwhile pointing out that in 1920, no one knew the following realities:

- A weak German government would be unable to prevent the rampant inflation that ruined their economy during the 1920s.
- The Reparations Commission would be unable to develop one simple level of reparations that Germany could reasonably be expected to pay over a defined period of time. Moreover, the decisions made by the commission in 1921 would have to be revisited by the Dawes Plan in 1924 and the Young Plan in 1929.
- Changes in the purchasing power of various currencies would materially affect the value of the amounts of currency and payments in kind to be delivered by Germany.
- German officials and ordinary citizens alike would use Keynes' vitriolic statements about the proceedings and the results at Versailles as a justification for their own rejection of the treaty's most problematic terms.
- No Allied country would be able to enforce most of the territorial and military restrictions called for in the treaty.
- The US Senate's refusal to ratify the treaty would remove that country from any role in helping rehabilitate Europe.
- Economic downturns around the world during the 1920s would exacerbate problems Keynes had not even mentioned.
- In subsequent decades, Keynes himself would materially modify his beliefs in the economic orthodoxy he advocated and supported in 1919.
- A disillusioned young war veteran would exploit the difficult economic and social conditions in post-war Germany and feed his misguided version of nationalistic, anti-Semitic, anti-capitalist, anti-Marxist pride to the detriment of millions of innocent souls.

Some of Keynes' economic analysis did turn out to be accurate. Germany would claim great difficulty in struggling to pay reparations. But he could not have known how its leaders' rejection of the treaty's principles affected their *willingness*, not their *ability*, to comply with its terms. Keynes' apprehensions about the economic revitalization of Germany and Europe were on point. But it seems improper to ignore the impact of domestic politics in Germany's economic problems in the 1920s, let alone the impact in the later years of the Great Depression.

Given the intensity of the economic troubles Germany and all of Europe encountered throughout the two decades following the publication of *The Economic Consequences*, it is easy to conclude that Keynes was very accurate in his analyses and projections. Unfortunately, it's impossible to examine the counterfactual question of how those economics would have progressed if Keynes *had not* written his book. Did Keynes really predict the future? Or did he give fellow analysts of the Treaty of Versailles sufficient data points they could accept or reject in order to justify their own version of the treaty's impact? The controversy continues. $

Michael A. Martorelli is a Director Emeritus *at Fairmount Partners and a frequent contributor to* Financial History. *He earned his MA in History from American Military University.*

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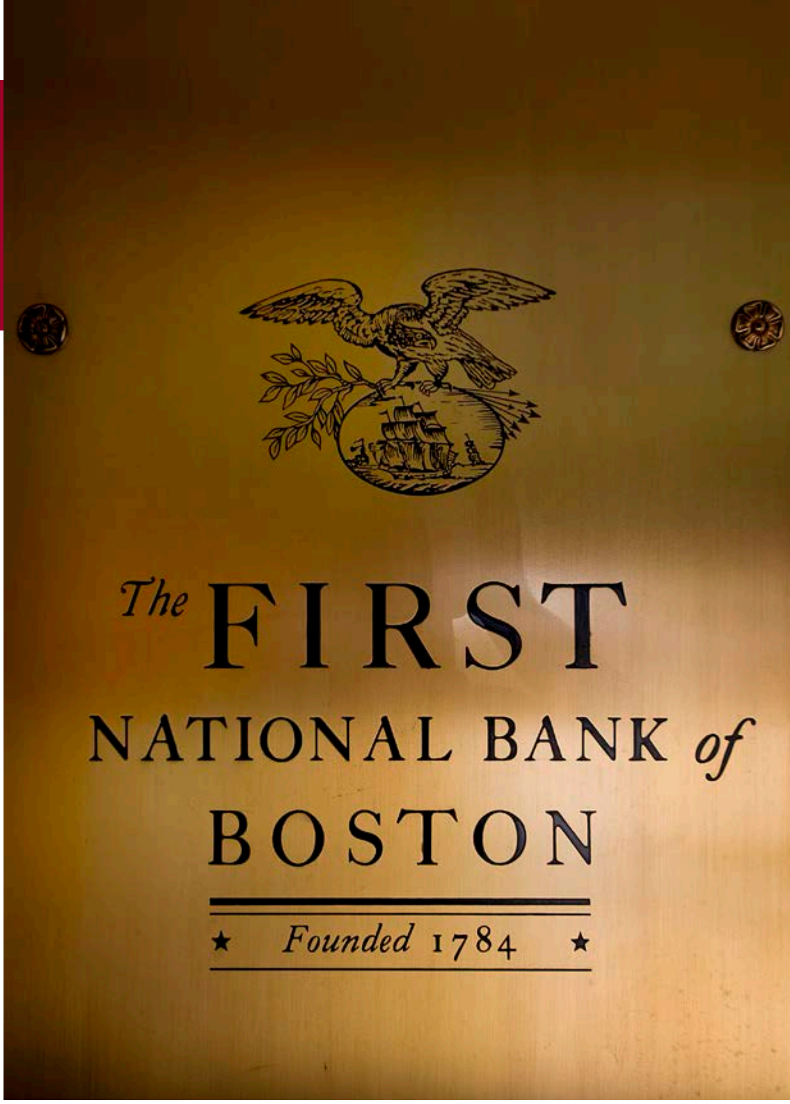


Bloomberg

WHERE ARE THEY NOW?

The First Boston Corporation

By Susie J. Pak

Massachusetts Bank (f. 1784, Boston)

In 1784, the Massachusetts Bank was founded by a group of Boston merchants: William Phillips, Isaac Smith, Jonathan Mason, Thomas Russell, John Lowell, Stephen Higginson, Edward Payne, John Hurd and Moses Michael Hays. The Massachusetts Bank was "The first independent joint-stock bank in the United States and the second Bank to receive a State Charter." It "was established to aid business and provide a bank in New England trade that were then being done by the British bank [The Bank of England] in London." The first president of the bank, James Bowdoin, was the former governor of the commonwealth and a fellow of Harvard.

First National Bank of Boston signage bearing the founding date of its earliest predecessor, the Massachusetts Bank, 1784.

Massachusetts National Bank (f. 1865, Boston)

The First National Bank of Boston (1903, Boston)

In 1865, after the Civil War, the Massachusetts Bank joined the national banking system and became the Massachusetts National Bank. In 1903, the Massachusetts National Bank merged with The First National Bank of Boston. (A descendant of the Safety Fund Bank founded in 1859, First National Bank of Boston acquired its name in 1863 after it also joined the national banking system.) The newly merged bank was called The First National Bank of Boston. Daniel Gould Wing served as the bank's president from 1903 until 1926, after which he served as chairman of the board. Wing was a native of Davenport, Iowa, and was raised in Lincoln, Nebraska, where his childhood friends included Vice President of the United States Charles G. Dawes, Army General John G. Pershing and Harvard Law School Dean Roscoe Pound.

First National Corporation of Boston (subsidiary, f. 1918, Boston)

The First National-Old Colony Corporation (subsidiary, f. 1929, Boston)

In 1918, the First National Bank invested $2.5 million in the newly formed First National Corporation of Boston, an investment subsidiary. After the Crash of 1929, the First National Bank of Boston took over the Old Colony Trust Company, including Old Colony's securities affiliate, Old Colony Corporation. The name of its investment subsidiary was then changed to The First National-Old Colony Corporation. After the passage of the Banking Act of 1933 required commercial banks to withdraw from the investment banking business, The First National-Old Colony Corporation was spun off from First National, combined with the securities affiliate of Chase National Bank.

Chase National Bank was founded in 1877 in New York. Its founder, John Thompson, had been one of the founders

of the First National Bank of New York. By 1921, it was the second largest national bank in the United States, and during the 1920s it grew larger after a series of mergers. Chase National's securities underwriting affiliate—Chase-Harris, Forbes Securities Corporation—was the result of the merger between its former securities affiliate, Chase Securities Corporation, and the firm of Harris, Forbes & Co. in 1931. Harris, Forbes & Co. traced its history back to N.W. Harris and Company, a bond house founded by Norman Wait Harris in 1881–2.

A native of Berkshire, Massachusetts, Norman Harris was the former secretary of the Union Central Life Insurance Company of Cincinnati. After founding N.W. Harris & Co. in Chicago, he also became a founder of the Harris Trust & Savings Bank in 1907. Harris Forbes & Co., a New York investment house, was founded in 1911. Like First National, Chase National Bank found itself in a similar situation after the passage of the Banking Act of 1933. Chase-Harris, Forbes Securities Corporation had to be separated from Chase Bank as did the Chase Corporation, which was "a holding company for various investments of the bank," including Chase Harris Forbes Corporation. First Boston also "acquired the right to take over the named 'Harris Forbes,' its good will and the custody of its records."

The First Boston Corporation (f. 1934, Boston)

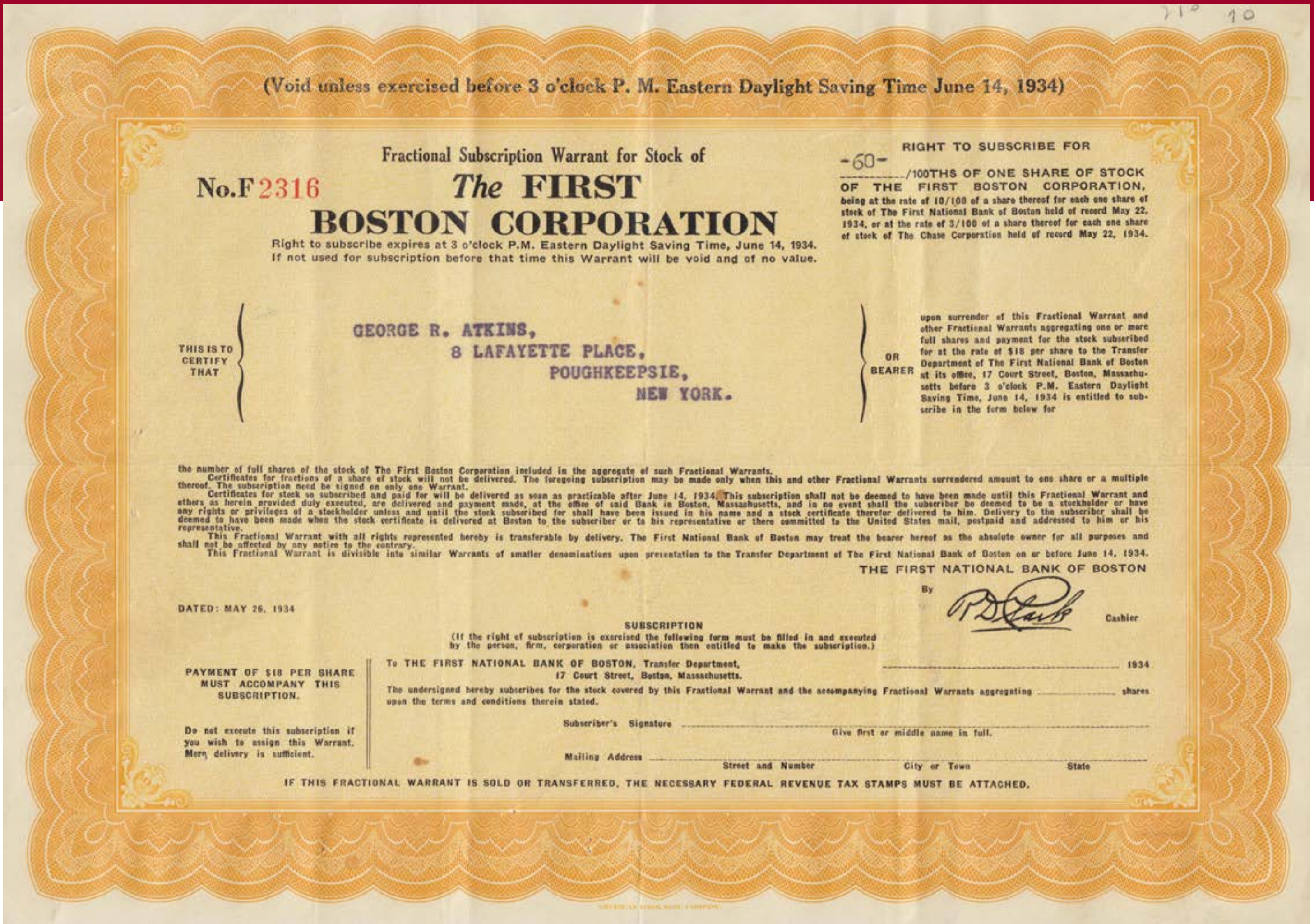
The newly merged firm was called The First Boston Corporation. John R. Macomber, a native of Framingham, Massachusetts, was named the first chairman. Macomber, a Massachusetts Institute of Technology graduate, had been a former director of First National, vice president of N.W. Harris & Co. and president of Harris Forbes & Co. He was also the former chairman of the board of Chase Harris Forbes Corporation. Col. Allan Melvill Pope was named president. The son of a merchant, Pope graduated from the Boston Latin School and the US Military Academy. First Boston Corporation was a publicly held company from its origin. According to the International Directory of Company Histories, it was the first "publicly held underwriting firm."

In 1946, during Macomber and Pope's tenures, First Boston Corporation took over the Mellon Securities Corporation of Pittsburgh, which "brought in an additional $8 million in capital and access to Mellon's industrial accounts, among them Alcoa, Allegheny Ludlum, and Gulf Oil." The following year, Macomber and Pope retired and were succeeded by Harry M. Addinsell and James Coggeshall Jr., respectively. Addinsell was the former president of the Chase Harris Forbes Corporation and vice president of Harris, Forbes. He retired in 1951 and was succeeded by George D. Woods. A native of Boston, George David Woods was the son of a shipyard worker. He was raised in Brooklyn and graduated from the Brooklyn Commercial High School before becoming an office boy at Harris, Forbes & Co. and working his way up the firm hierarchy at First Boston. Coggeshall retired in 1962 and was succeeded by Emil J. Pattberg, who had started working at First National Bank of Boston in 1929 "in the 'cage'" and worked his way up to chairman of the executive committee of First Boston by 1952. Woods left First Boston and became the president of the World Bank in 1963.

First Boston Inc. (f. 1976, holding company)

In 1971, Pattberg was succeeded by Ralph Saul, the president of the American Stock Exchange who was recruited from outside the firm to deal with the financial challenges the firm experienced in the late 1960s when trading volume dropped and profits dramatically declined. During his tenure, First Boston Corporation joined the New York Stock Exchange in 1971 and became "the first publicly held investment bank to be granted membership." In 1975, George L. Shinn, an Amherst graduate, was recruited to become chairman and CEO of First Boston. Shinn had been the president and chief operating officer of Merrill Lynch since 1973 and had been with the Merrill firm since 1948. Alexander Tomlinson, a member of Morgan Stanley, joined the firm in 1976 and became chairman of the executive committee. That year, "in March, 1976, First Boston Corporation became a wholly owned subsidiary of First Boston Inc." During Shinn's tenure, First Boston Corporation created an alliance with Credit Suisse to create Financiere Credit-Suisse First Boston, a European holding company, in 1978.

First Boston's alliance with Credit Suisse stemmed from the acquisition of White, Weld Holdings, Inc., the parent holding company of White, Weld & Company, by Merrill Lynch & Co. in 1978. White, Weld & Co. was then merged into Merrill Lynch, Pierce, Fenner & Smith, Inc., Merrill's brokerage subsidiary. White Weld's relationship with Credit Suisse dated back to 1962. That year, White, Weld & Co. sold its Zurich subsidiary to Credit Suisse, White, Weld & Co. AG. The subsidiary was renamed Clariden Finanz AG (later Clariden Bank). Eight years later, in 1970, Credit Suisse and White, Weld & Co. created WW Trust, a holding company for the Clariden subsidiary. In 1974, "Credit Suisse became the largest shareholder in WW Trust, which was renamed Société Anonyme Financiére du Crédit Suisse et de White Weld (CS&WW). In 1978, when Merrill Lynch bought White Weld, it also bought "a minority interest in Financiere du Credit Suisse et de White, Weld and



(Void unless exercised before 3 o'clock P. M. Eastern Daylight Saving Time June 14, 1934)

Fractional Subscription Warrant for Stock of

No.F 2316

The FIRST BOSTON CORPORATION

Right to subscribe expires at 3 o'clock P.M. Eastern Daylight Saving Time, June 14, 1934.
If not used for subscription before that time this Warrant will be void and of no value.

RIGHT TO SUBSCRIBE FOR -60- /100THS OF ONE SHARE OF STOCK OF THE FIRST BOSTON CORPORATION, being at the rate of 10/100 of a share thereof for each one share of stock of The First National Bank of Boston held of record May 22, 1934, or at the rate of 3/100 of a share thereof for each one share of stock of The Chase Corporation held of record May 22, 1934.

THIS IS TO CERTIFY THAT GEORGE R. ATKINS, 8 LAFAYETTE PLACE, POUGHKEEPSIE, NEW YORK. OR BEARER upon surrender of this Fractional Warrant and other Fractional Warrants aggregating one or more full shares and payment for the stock subscribed for at the rate of $18 per share to the Transfer Department of The First National Bank of Boston at its office, 17 Court Street, Boston, Massachusetts before 3 o'clock P.M. Eastern Daylight Saving Time, June 14, 1934 is entitled to subscribe in the form below for

the number of full shares of the stock of The First Boston Corporation included in the aggregate of such Fractional Warrants.

Certificates for fractions of a share of stock will not be delivered. The foregoing subscription may be made only when this and other Fractional Warrants surrendered amount to one share or a multiple thereof. The subscription need be signed on only one Warrant.

Certificates for stock so subscribed and paid for will be delivered as soon as practicable after June 14, 1934. This subscription shall not be deemed to have been made until this Fractional Warrant and others as herein provided duly executed, are delivered and payment made, at the office of said Bank in Boston, Massachusetts, and in no event shall the subscriber be deemed to be a stockholder or have any rights or privileges of a stockholder unless and until the stock subscribed for shall have been issued in his name and a stock certificate therefor delivered to him. Delivery to the subscriber shall be deemed to have been made when the stock certificate is delivered at Boston to the subscriber or to his representative or there committed to the United States mail, postpaid and addressed to him or his representative.

This Fractional Warrant with all rights represented hereby is transferable by delivery. The First National Bank of Boston may treat the bearer hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

This Fractional Warrant is divisible into similar Warrants of smaller denominations upon presentation to the Transfer Department of The First National Bank of Boston on or before June 14, 1934.

THE FIRST NATIONAL BANK OF BOSTON

By P D Clark Cashier

DATED: MAY 26, 1934

SUBSCRIPTION

(If the right of subscription is exercised the following form must be filled in and executed by the person, firm, corporation or association then entitled to make the subscription.)

PAYMENT OF $18 PER SHARE MUST ACCOMPANY THIS SUBSCRIPTION.

Do not execute this subscription if you wish to assign this Warrant. Mere delivery is sufficient.

To THE FIRST NATIONAL BANK OF BOSTON, Transfer Department, 17 Court Street, Boston, Massachusetts. ______ 1934

The undersigned hereby subscribes for the stock covered by this Fractional Warrant and the accompanying Fractional Warrants aggregating ______ shares upon the terms and conditions therein stated.

Subscriber's Signature ______ Give first or middle name in full.

Mailing Address ______ Street and Number City or Town State

IF THIS FRACTIONAL WARRANT IS SOLD OR TRANSFERRED, THE NECESSARY FEDERAL REVENUE TAX STAMPS MUST BE ATTACHED.

Collection of the Museum of American Finance

Subscription warrant for stock of the First Boston Corporation, issued to George R. Atkins and dated May 26, 1934.

then granted an option to Credit Suisse to purchase this interest," which Credit Suisse did do with First Boston Inc.

Financiere Credit-Suisse First Boston (f. 1978, holding company)

In 1983, George L. Shinn left First Boston Corporation and was succeeded by Peter T. Buchanan, the president of First Boston, who became chief executive officer. A Princeton graduate, Buchanan joined First Boston as a trainee in 1956 after he graduated from college. Buchanan had been named president and chief operating officer since 1978. Alvin V. Shoemaker, the chairman of the executive committee, succeeded Shinn as chairman. Alvin Varner Shoemaker was a native of Pennsylvania. He worked as "an attorney for the Comptroller of the Currency in 1963 in Washington." He joined First Boston in 1969. His father owned a clothing business and later worked for a lumber company. His grandfather was a livestock dealer. A Wharton and University of Michigan law graduate, Shoemaker had briefly left First Boston in 1978 to become president and chairman of the operating committee of Blyth Eastman Dillon, but he returned to First Boston in 1981. He retired in 1989.

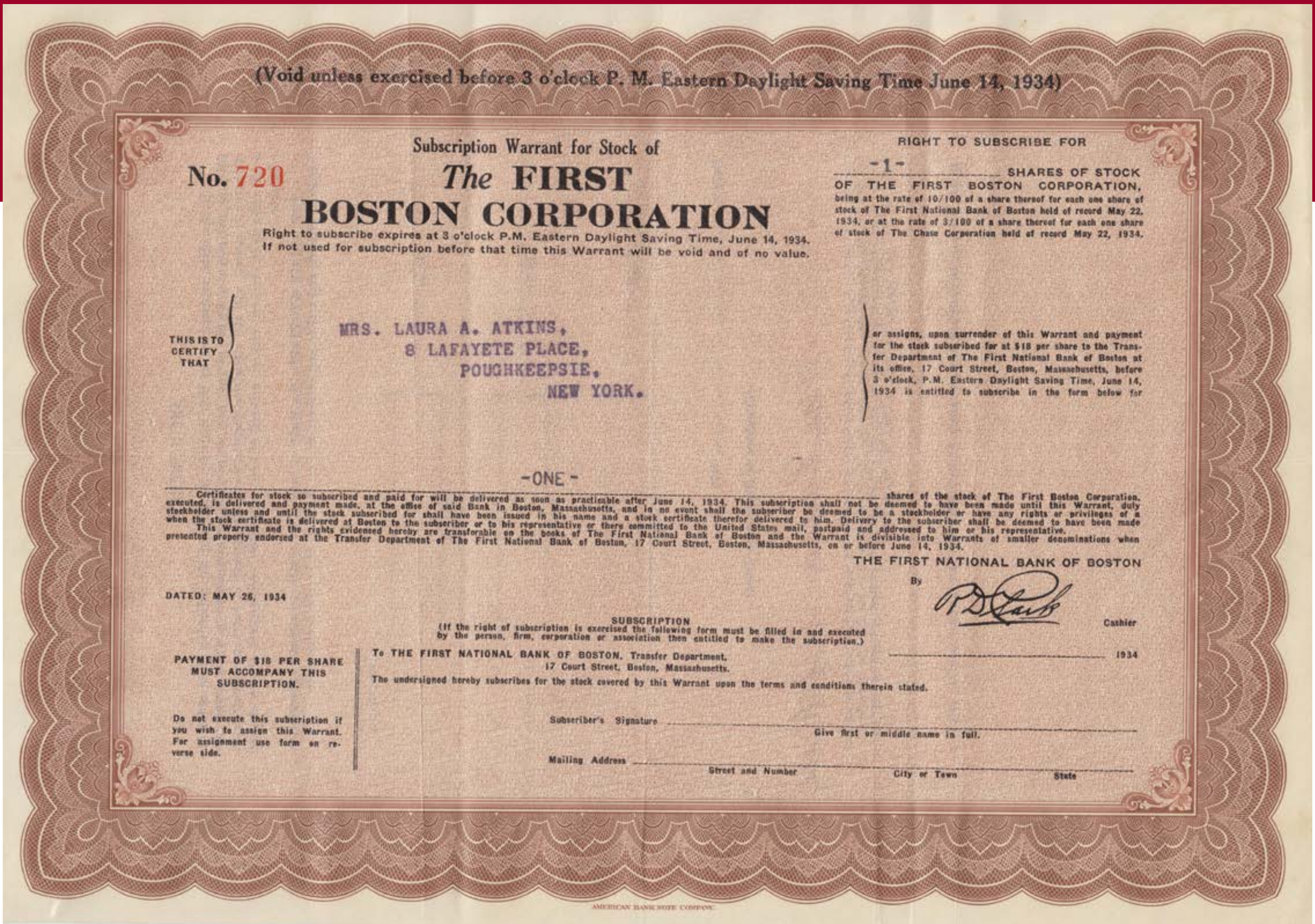
CS First Boston Inc. (parent company, f. 1988)

Credit Suisse First Boston (f. 1997)

Credit Suisse Group (parent company, f. 1997)

In 1988, before Shoemaker retired, First Boston, Inc. merged with Financiere Credit-Suisse First Boston to create "a new worldwide investment-banking concern-CS First Boston Inc." At that time, ownership of Financiere Credit Suisse-First Boston passed entirely to The First Boston Corporation and, at the same time, The First Boston Corporation acquired all of its own shares held by the public. As a result of this reorganization, CS Holding became a direct shareholder of the newly renamed CS First Boston, Inc. In 1993, CS First Boston integrated its three regional subsidiaries, "The First Boston Corporation in the United States, Financiere Credit Suisse-First Boston in Europe and CS First Boston Pacific in the Asia/Pacific region…into one global investment bank and operated under a single name, CS First Boston…" Then in 1997, CS First Boston and Credit Suisse consolidated to become Credit Suisse First Boston, whose parent company was called Credit Suisse Group.

By that time, Allen D. Wheat, a former



(Void unless exercised before 3 o'clock P. M. Eastern Daylight Saving Time June 14, 1934)

No. 720

Subscription Warrant for Stock of

The FIRST BOSTON CORPORATION

Right to subscribe expires at 3 o'clock P.M. Eastern Daylight Saving Time, June 14, 1934. If not used for subscription before that time this Warrant will be void and of no value.

RIGHT TO SUBSCRIBE FOR -1- SHARES OF STOCK OF THE FIRST BOSTON CORPORATION, being at the rate of 10/100 of a share thereof for each one share of stock of The First National Bank of Boston held of record May 22, 1934, or at the rate of 3/100 of a share thereof for each one share of stock of The Chase Corporation held of record May 22, 1934.

THIS IS TO CERTIFY THAT MRS. LAURA A. ATKINS, 8 LAFAYETE PLACE, POUGHKEEPSIE, NEW YORK. or assigns, upon surrender of this Warrant and payment for the stock subscribed for at $18 per share to the Transfer Department of The First National Bank of Boston at its office, 17 Court Street, Boston, Massachusetts, before 3 o'clock, P.M. Eastern Daylight Saving Time, June 14, 1934 is entitled to subscribe in the form below for -ONE- shares of the stock of The First Boston Corporation.

Certificates for stock so subscribed and paid for will be delivered as soon as practicable after June 14, 1934. This subscription shall not be deemed to have been made until this Warrant, duly executed, is delivered and payment made, at the office of said Bank in Boston, Massachusetts, and in no event shall the subscriber be deemed to be a stockholder or have any rights or privileges of a stockholder unless and until the stock subscribed for shall have been issued in his name and a stock certificate therefor delivered to him. Delivery to the subscriber shall be deemed to have been made when the stock certificate is delivered at Boston to the subscriber or to his representative or there committed to the United States mail, postpaid and addressed to him or his representative.

This Warrant and the rights evidenced hereby are transferable on the books of The First National Bank of Boston and the Warrant is divisible into Warrants of smaller denominations when presented properly endorsed at the Transfer Department of The First National Bank of Boston, 17 Court Street, Boston, Massachusetts, on or before June 14, 1934.

DATED: MAY 26, 1934

THE FIRST NATIONAL BANK OF BOSTON

By

Cashier

SUBSCRIPTION

(If the right of subscription is exercised the following form must be filled in and executed by the person, firm, corporation or association then entitled to make the subscription.)

PAYMENT OF $18 PER SHARE MUST ACCOMPANY THIS SUBSCRIPTION.

Do not execute this subscription if you wish to assign this Warrant. For assignment use form on reverse side.

To THE FIRST NATIONAL BANK OF BOSTON, Transfer Department, 17 Court Street, Boston, Massachusetts.

1934

The undersigned hereby subscribes for the stock covered by this Warrant upon the terms and conditions therein stated.

Subscriber's Signature

Give first or middle name in full.

Mailing Address

Street and Number

City or Town

State

Collection of the Museum of American Finance

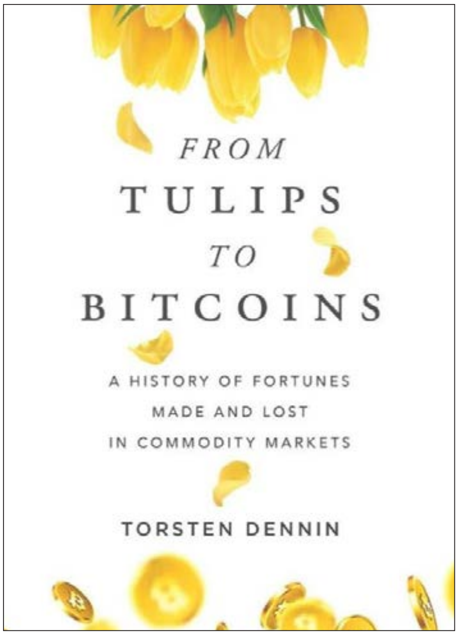
Subscription warrant for stock of the First Boston Corporation, issued to Laura A. Atkins and dated May 26, 1934.

member of Bankers Trust and a New Mexico native, was the president and chief operating officer of the firm, having succeeded Archibald Cox Jr. in 1993. (The son of Archibald Cox Sr., the special prosecutor during the Watergate scandal, Cox joined the firm from Morgan Stanley International in 1990.) During Wheat's tenure, the firm bought the brokerage firm, Donaldson, Lufkin & Jenrette, Inc. and DLJ's chief executive, Joe L. Roby, became chairman of the executive board. (Roby became chairman *emeritus* in late 2001.) In 2001, however, Wheat was fired after Credit Suisse became embroiled in a scandal where it was accused by the Securities and Exchange Commission of receiving "extra large commissions from investors in exchange for allocations of hot public offerings." (The firm paid a $100 million fine in 2002.) Wheat was replaced by John Mack, who was the former president of Morgan Stanley Dean Witter. A North Carolina native, Mack was "the son of a Lebanese-American grocer." In 2004, Mack left First Boston after conflicts with the board over the direction of the firm. He was succeeded by Brady W. Dougan, who had been with CS First Boston since 1990. Dougan, "the son of an Illinois railway dispatcher," was a graduate of the University of Chicago.

In 2005, Credit Suisse Group decided to drop the "First Boston" name from its investment banking division in the United States and Canada starting in 2006. According to *The Tennessean,* the name change accompanied "the reorganization of different Credit Suisse operations into 'one bank.'" Credit Suisse Group announced, "It makes sense from the perspective of both our clients and our employees to move to a single brand to represent the fully integrated global bank." With that change, the name of First Boston was lost to history. $

Susie J. Pak is an Associate Professor in the Department of History at St. John's University (New York). A graduate of Dartmouth College and Cornell University, she is the author of Gentlemen Bankers: The World of J.P. Morgan *(Harvard University Press), a Trustee of the Business History Conference, co-chair of the Columbia University Economic History Seminar and a member of the editorial advisory board of the* Business History Review. *She is also a member of the* Financial History *editorial board.*

About Where Are They Now? The "Where Are They Now?" Series traces the origins and histories of 207 of the underwriters of the 1956 Ford Motor Company IPO. The research for this series has been generously funded by Charles Royce of The Royce Funds. The Museum's "Where Are They Now?" blog can be found at: wherearetheynowblog.blogspot.com.



From Tulips to Bitcoins: A History of Fortunes Made and Lost in Commodity Markets

By Torsten Dennin
River Grove Books, 2019
317 pages with glossary, notes and references
$19.95

There is a long path between the farm field and the grocery, between the iron mine and the auto showroom, between the oil rig and the gas tank. Are consumers turning off to orange juice? Does the world have enough lithium to meet the rapid growth in battery production? What will e-mobility do to markets for fossil fuels? How will the growing Chinese appetite for meat affect animal feedstock demand? And so on. Welcome to the multi-trillion dollar global commodities markets.

For centuries, commodity market players have sought to make money by spotting imbalances or inefficiencies on the path between production and consumption. Not enough wheat, too much cotton, new discoveries of gold, shortages in rare earth materials. Most times the bets on commodity pricing play a positive role. They act to "correct" over- or under-supply. Like any market, however, there are times when things get out of hand. A certain madness takes over. Or someone tries to manipulate the prices. Or lie about new supply. And the commodities markets are particularly fascinating because they deal in actual goods—not inventions like stocks or bonds—but stuff like rice, wheat, cotton, pork bellies and soy beans.

Into this mix comes *From Tulips to Bitcoins: A History of Fortunes Made and Lost in Commodity Markets*, by Dr. Torsten Dennin, a business professor and commodities fund executive. It is a very broad treatment of the commodities markets, with each chapter dealing in a how a particular commodity market moved at a point in time, and who was responsible for it. There are stops and sidebars in each chapter, giving additional background on the commodity or the personalities.

While there were commodity markets in ancient times, Dennin begins his commodities tour in 1637. Holland was rich, stable and sophisticated. Tulips became a measure of a person's wealth and status. But there weren't enough tulips to meet demand, and thus was born a mania. Middlemen, seeking to grab the future market, began valuing bulbs, and investors raced to get into the market as prices skyrocketed. At one point, three bulbs would get you a decent townhouse in Amsterdam. In the end, someone was left with a large supply of bulbs nobody wanted.

We then move to Japan in 1750, where Homma Munehisa, a rice trader using historical pricing data, essentially becomes the market for rice. Over several trading days, he buys all he can. When news hits of a poor rice harvest, prices skyrocket and Munehisa makes a fortune. His knowledge of market data would be his edge. But as we learn later, superior data alone is not always enough.

In the 19th century, consumer markets open up and industrialization speeds. Commodity demand broadens. The markets for wheat, oil, gold, etc. all go national, and then global. And where money changes hands, financial markets are not far away. Exchanges—The Chicago Board of Trade, The New York Mercantile Exchange, The Baltic Exchange, etc.—are established dealing in futures for crops, metals, oil and distillates, and maritime freight.

As these exchanges grow, the commodities trading business opens up. One need not own a pound or gallon or warehouse of anything in order to bet big. We meet the Hunt Brothers (silver), Yasuo Hamanaka (copper), Brian Hunter (natural gas) and a host of other characters who placed market moving wagers on commodity pricing. Sometimes they get it right, other times they don't, causing huge losses for their financial backers. We are reminded that natural disasters—droughts, floods, hurricanes, tornados, etc.—can upend the best pricing data.

Dr. Dennin's book is a good introduction to the history of commodities. The writing is conversational, with plenty of colorful factoids. (Rare earth minerals aren't that rare! Contango is not a Latin dance step!) The organization and presentation could have been improved. There is a precis at the open of every chapter, then highlights and then key takeaways. No need, when the chapters are just pages long. Also, some of the stories could have used more depth.

Commodities markets are always looking for the next big thing or swing. The book's last and longest chapter is on crypto-currencies. The value of bitcoins and other "new" cyber-currencies have seesawed since their introduction. Billions have already been made and lost. Are they a real thing, with real value? Or will someone be left with a big supply of 21st century tulip bulbs? Read Dr. Dennin's book to find out more. $

James P. Prout is a lawyer with over 30 years of capital market experience. He now is a consultant to some of the world's biggest corporations. He can be reached at jpprout@gmail.com.

TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. What company, founded by Aaron Burr, was initially created to provide clean water to New York City but became better known for its banking arm?

2. The year 2020 will mark the 300th anniversary of the bursting of what two historically important bubbles?

3. Pennies are no longer made solely of copper, but are rather composed of which metal with a thin copper coating?

4. What percentage of the world's money is physical cash, as opposed to electronic funds?

5. What early American financier founded the US Coast Guard?

6. What company's demise exacerbated the Panic of 1857?

7. What American author painted an accurate, realistic and dramatic picture of commodities trading in the early 20th century through his popular writings on wheat trading?

8. What type of "currency" circulated widely throughout the United States during the Great Depression, due largely to a shortage of US paper money?

9. What bank was the first independent joint-stock bank in the United States and the second bank to receive a state charter?

10. What US President said, "The Federal Reserve is independent, certainly independent of the President, although the Congress would suggest that it is not independent of the Congress"?

1. The Manhattan Company **2.** The Mississippi Bubble and the South Sea Bubble **3.** Zinc **4.** Roughly 8% (in 2019) **5.** Alexander Hamilton **6.** Ohio Life Insurance and Trust Company **7.** Frank Norris **8.** Scrip **9.** The Massachusetts Bank **10.** Richard Nixon

WHY JOIN THE LSTA?

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Our goal is to foster cooperation and coordination among all loan market participants, facilitating just and equitable market principles, while inspiring the highest degree of confidence among investors and participants in the corporate loan market.

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Our members include leading industry firms representing the buy-side, sell-side, law firms and other organizations playing an important supporting role: accounting and consulting firms, technology companies, trading and analytic platforms, as well as clearing and settlement providers. All of these participants help make the loan market vibrant.

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